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ABSTRACT

In 1997, a skills task force began a 2-year process of gathering input from English employers and post-16 education and training practitioners and formulating a national skills agenda. The agenda's goals included instilling a culture of lifelong learning in the United Kingdom, better anticipating the evolving skill requirements of employment, and promoting a proper balance between general education, vocational education, and work-based learning. The proposed national skills agenda was designed around the following core components: (1) an action plan for the required improvements in the skills "supply side"; (2) an approach to continuing management of post-16 education and training that shapes both the demand for and supply of skills; and (3) clear, explicit targets for improvements in skill levels, plus measures of performance in managing the match between supply and demand. The task force also identified main skills gaps and shortages, features of a new post-16 education and training system to achieve the national skills agenda; and recommendations for stimulating demand and managing the post-16 education and training system. (Twelve tables/figures are included. The following items are among those appended: skills task force terms of reference; national learning targets for England for 2002; a list of 30 National Skills Task Force publications; and definitions of attainment levels.) (MN)

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Skills for all: Proposals for a National Skills Agenda

Final Report of the National Skills Task Force

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ACKNOWLEDGEMENTS

From the very start of the Skills Task Force we took the view that our work should not be conducted in isolation and we have sought to consult widely throughout our programme. This approach has included consultation meetings, invitations to comment on our reports both during and after production, bi-lateral meetings with a host of agencies and the work of a supporting group of researchers with expertise in the education and training field.

The scope of the consultation has been so broad as to make it impossible to list all those involved in person, or even by organisation. Nevertheless our genuine gratitude goes out to all those that have given their time and energies to contribute to the debate and our thinking as it has emerged, including those who have provided research evidence, literature surveys and position papers, and to officers of national bodies, academic institutions and Government Departments who have assisted. This input has greatly enriched the process and its outcomes.

FOREWORD



When David Blunkett invited me to chair the Skills Task Force, I was already convinced of the important contribution of skills to productivity and social cohesion. The investigations of the Task Force since March 1997 have only served to strengthen that conviction.

In this final report, we bring together the themes and recommendations of our three interim reports to help ensure that Britain has the skills needed to sustain high levels of employment, compete in the global marketplace and provide opportunity for all. We present our proposals for a national skills agenda in three sections - a set of policy actions to improve the supply side of education and training and address identified skill priorities; an approach to managing the system which will enhance the match between the employment needs of the future and the learning people pursue; and a set of targets and measures which should help us to monitor and improve our progress over time.

Our agenda builds on the strengths of the existing system to create a framework that offers everyone equitable opportunities to gain the skills they need for continuing employment. We need to create a strong ladder of learning to the very top for young people who prefer the vocational route. We must attract back into learning the majority of adults who missed out on the recent expansion of general education, and especially the one in five adults with significant basic skills difficulties. And we must create an environment in which our small employers are more able and willing to invest in the skills of their managers and their employees.

I believe the time is right to achieve this ambitious programme of work. The Government is already putting in place many of the necessary building blocks, consistent with recommendations made in our interim reports. The new Learning and Skills Council will bring together the management and funding of general and vocational learning to promote a balanced system, and will play a critical part in putting the skills agenda into action. With the resourcefulness and innovation of those employers and practitioners who are working to involve more people of all ages in work-related learning, we have a winning partnership to boost the productivity of our businesses and the prosperity of all our people.

It has been a pleasure and an honour to work with my fellow members of the Skills Task Force, whose dedication and insight have been exemplary. We are in turn grateful to the many people who have informed and inspired us with their views and experience. The strengths of our reports owe much to them all, though any weaknesses remain ours alone. We hope that the end result of two years work is a national agenda for skills that will help to achieve our common vision of a high skill, high value added economy that offers opportunity to all.

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Presents our strategy for the ongoing management of the education and training system.

Our concern is how funding and planning systems, information and guidance, quality standards and curriculum and qualifications structures are managed on a continuing basis so as to ensure that decisions made by individuals, employers and education and training providers deliver the skills we need. Again this builds extensively on our previous work.

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Sets out how we see the way forward in terms of practical implementation of our agenda.

This covers questions of priorities, the setting of targets and performance measures, and the roles and responsibilities of different agencies.

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EXECUTIVE SUMMARY

Vision, goals and main components of a National Skills Agenda

Our vision is one of a high skill, high value added economy delivering competitiveness and social cohesion. It is a vision in which economic and social goals are inextricably linked. Against this background we see a National Skills Agenda has having the following six goals:

- to successfully instil a culture of lifelong learning in the UK in which all individuals and employers recognise the importance of regular re-skilling and upskilling, and have the confidence and capacity to succeed;
- to identify and anticipate better the evolving skills requirements of employment, and ensure that effective information, advice and guidance enables individuals and firms to make informed choices about learning which better match those needs over time;
- to ensure that everyone has the opportunity to acquire a sound foundation of the basic skills of literacy and numeracy, key skills and technical knowledge and skills, which equips them properly for working life and widens opportunities for further learning and economic mobility;
- to maximise the opportunities for all those in the workforce (including the temporarily unemployed) to develop new skills and broaden their skill base so they can adapt flexibly and successfully to industry and occupational change;
- to promote a proper balance between general education, vocational education and work based learning, and in particular to enhance the status and quality of vocational education and training;
- to manage the post-16 education and training system so that we establish and maintain a sound match between skills needs and skills supply, and so minimise the negative economic and social impact of skills shortages and gaps.

Our proposed National Skills Agenda is designed around three core components:

- an action plan for changes in the curricula, qualifications, apprenticeships, funding and institutions of the post-16 education and training system to produce the required improvements in the skills 'supply side', designed to tackle the priority areas of skills deficiencies;
- an approach to the continuing management of post-16 education and training, using levers such as funding, planning, labour market information, guidance and others, that shapes both the demand for, and supply of, skills over time so minimising skill shortages and gaps in the future; and
- clear and explicit targets for improvements in skill levels, plus measures of our performance in managing the match between supply and demand, to raise public confidence, drive progress and monitor success.

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Main skills gaps and shortages

We examined skill needs at all levels in the labour market and have identified the following six main areas of skills deficiency:

- basic skills - those of literacy and numeracy, the basic building blocks on which to build other skills;
- generic skills - those transferable skills, essential for employability, (and defined in the relevant section below) which are relevant at different levels for most;
- mathematics skills - where we have a poor supply coupled with increasing demand for mathematical capability significantly above basic numeracy;
- intermediate level skills - specific occupational skills needed in intermediate jobs ranging from craft to associate professional occupations i.e. at Levels 3 and 4;
- specialist information and communications technology skills - professional skills needed in the Information and Communications Technology (ICT) sector, and by ICT specialists in other industries - those 'e-skills' at the heart of the knowledge economy;
- major adult skill gaps - the large proportion of the adult workforce with no qualifications or qualifications below Level 2.

Features of a new post-16 education and training system

Our proposals for the key features and recommendations for change for the education and training system which are needed to raise the skills of the labour force and to tackle skills gaps are as follows.

- The compulsory school system should ensure a sound base of basic skills, key skills and broader learning for all young people through a balanced choice of quality general and vocational options from age 14.
- All young people up to their 25th birthday should be entitled to free education and training leading to their first level 3 qualification, enhanced where necessary by a system of income contingent loans for living, study and travel costs.
- New, including in-service, teacher training programmes, supported by high quality learning materials, should be introduced to promote the effective development of the key skills through the national curriculum in schools, in ways that are consistent with raising standards in the basics.
- Priority should be given to funding the training and development of a cadre of highly capable IT trainers for the new IT learning centres, to widen adult access to a simplified range of certificated general IT and e-commerce learning programmes.
- Government should encourage all young people pursuing a non-vocational route post-16 to study a broader range of subjects, including English and maths, and support the progressive introduction of a baccalaureate style qualification for Level 3 by 2006.
- Apprenticeship programmes at Levels 2, 3 and 4 should be available to all who want them and include key skills, assessed knowledge and understanding, and options for general education, so as to maximise transferability of skills and progression opportunities.

- The new Foundation Degree should be designed as a flexible vocational programme, linked to National Occupational Standards, for part-time or full-time study including significant work experience, and offer progression by further study to an honours degree for those who desire it.
- The relevant ICT industry National Training Organisations should work with the Qualifications and Curriculum Authority to review the occupational framework for the industry, and then reduce the number of ICT qualifications below degree level to more closely match that framework.
- All adults should be entitled to free education and training, including basic skills, to attain their first Level 2 qualification, enhanced where necessary by a system of income contingent loans for living, study and travel costs.
- Government should work with employers to further review the functions, capacity and funding of NTOs to ensure they are able to secure increased participation and attainment in learning within their sectors.
- Unemployed adults should have greater access to employability skills training, and this should be combined with measures to enhance geographical mobility and to promote entry of economically inactive adults into the labour force.
- The Learning and Skills Council should establish an effective and comprehensive equal opportunities monitoring system, and put in place proactive programmes as necessary to reduce inequities in participation and/or attainment by groups demonstrably disadvantaged by ethnicity, gender, age or disability.

Stimulating demand and managing the system

There must be a systematic and sustained approach influencing the choices of individuals, employers and education and training providers, including an effective and sensible planning system. This approach should have the following elements:

- an integrated and coherent labour market and learning information system to inform learner choice and guide system management;
- successful promotion of a greater and more informed demand for learning, from both young people and adults;
- strengthened commitment from employers and managers to promote learning, and encourage and support their employees to raise their skill levels and maintain their employability;
- an effective planning, funding and management regime, which ensures that funding, performance monitoring, and quality assurance work together to ensure a balanced general and vocational post-16 system, and stimulate responsive supply;
- targeted action to address unanticipated sectoral or occupational skills shortages as these occur;
- co-ordinated and integrated action by all the key organisations to deliver agreed priorities and targets.

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Our key recommendations for developing this approach are as follows.

- Government should establish a national system for collecting and disseminating information on labour market and skill needs which is led at the strategic level by the DfEE and at the operational level by the Learning and Skills Council.
- Early careers advice and education should be provided for all young people which gives them a greater understanding of real jobs and their requirements in terms of skills.
- The Learning and Skills Council must have responsibility for the provision of high quality careers information, advice and guidance for adults which includes up to date information on employment prospects in different occupations and industries.
- The Learning and Skills Council should establish a major and sustained national marketing programme, coordinated with other relevant bodies such as Ufi, to substantially increase adult demand for, and successful participation in, basic skills and work related learning, with a primary focus on the one third of the workforce without a Level 2 qualification.
- The Learning and Skills Council, working with NTOs and the Ufi, should establish a national framework of local and sectoral 'employer learning networks', associated with *learndirect* learning centres, to meet targets for both small business involvement and adult employee participation and attainment.
- The Small Business Service should encourage and promote best practice in management and the organisation of work to small firms, including the training of key managers in such firms in relevant management techniques and learning methods.
- A tax credit or reduction in the small firm rate of corporation tax should be provided for firms with fewer than 50 employees that achieve the Investors in People standard.
- The Learning and Skills Council should establish a planning system for publicly funded education and training which can identify major discrepancies between provision and the needs of individuals, employers and the labour market.
- The Learning and Skills Council's funding regime system for post-16 education and training must allow funding to follow the learner and ensure a level playing field between different types of education and training.
- The public funding of apprenticeships should recognise the true costs to employers of on-the-job training in addition to the off-the-job element.
- Each National Training Organisation should put in place a permanent skills foresight programme to scan for and anticipate potential skills challenges, and engage its employers and relevant trade unions in responding to these through effective sector workforce development plans.
- The ICT industries, with the support of government and the education and training system, should establish an urgent campaign to create a more positive image of career prospects in the ICT industry, and work closely with employers, careers services and education and training providers, to substantially increase recruits into ICT specialist employment.

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Priorities, targets and measures

The three main priorities we have identified are:

- low skilled adults, and in particular raising the opportunities for further learning and attainment of those who currently hold qualifications below Level 2 - including those with low levels of basic skills;
- establishing an excellent foundation learning system, to include high quality vocational education and training options and an entitlement to learning for young people up to their first Level 3 qualification;
- support for small employers, to widen the availability of learning for the adult workforce and to help small firms adopt up to date working practices with the skilled workforce they require in order to be successful.

To ensure progress in implementing our proposed strategy, more precise measures will be needed of what we are trying to achieve. We propose the following targets relating to the impact on the supply of skills:

- by 2010, to reduce the proportion of adults with low levels of literacy and numeracy from just over 20% to 10%;
- by 2010, to increase the proportion of 25 year olds with a Level 3 qualification from 41% to 70%;
- by 2010, to increase the proportion of the adult workforce with a Level 2 qualification from 68% to 80%.

In addition a clear definition is needed of the measures of the performance of the LSC and other agencies in managing the learning market. The Learning and Skills Council should develop national and local performance measures which cover:

- the match between student demand and course provision;
- the congruence between changes in provision and labour market trends;
- the match between the courses students have taken and their subsequent employment.

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PREFACE

David Blunkett, in our remit, asked us to advise him on "*developing a National Skills Agenda which will ensure that Britain has the skills needed to sustain high levels of employment, compete in the global market place and provide opportunity for all*". Growth in the economy and the resultant continuing concerns about skills shortages and gaps makes that need as strong now as it was two years ago when the Task Force was formed. In this final report, we aim to meet that request in full by drawing together our work into a national skills agenda. We believe the approach we recommend will lead over the next few years to a step change in the skills of the nation's workforce and ensure that we are better able to deliver the skills required for economic success and social cohesion.

Our Second and Third Reports set out detailed proposals and recommendations for specific improvements in the foundation and lifetime learning systems in England - targeting both young people and the adult workforce. While we have taken the opportunity to develop our thinking on some specific topics in this final report, our emphasis here is on the broader strategy and seeks to draw together much of our earlier work into an overarching set of goals and objectives, and a clear agenda for how those goals can be achieved in practice. We have generally chosen not to repeat the fine detail of our earlier recommendations which can be found in the relevant reports.

Underpinning our proposals is evidence on current and future skill needs, and on the skills gaps in the workforce, which is published in a companion research summary report. This includes findings from one of the largest programmes of research on skills ever commissioned, now virtually complete. In total, we will have published 29 research reports, including 11 sectoral studies, and have undertaken a comprehensive employer survey involving 23,000 telephone, and 4,000 face-to-face, interviews. There is still scope for much valuable analysis to be conducted on this research base, and we hope this will provide a sound underpinning to the early work of the new Learning and Skills Council.

Background policy in education and training has been continually evolving during the lifespan of the Task Force, and our previous reports have contributed to that evolution. We welcome the many changes which have derived from our work, and recognise that this final report must build on where we are today in this first year of the new century. The most significant of these policy developments are summarised in the box below, and they form much of the policy framework within which our final recommendations will fit.

The Skills Task Force's remit related to post-16 education and training in England, but much of the data we have studied relates to Great Britain or the United Kingdom. We have therefore extended many of our comments beyond the English borders in the hope that others may find some of our analyses and conclusions useful.

¹ Our full terms of reference are at Annex A

Finally, it would not be right to finish this introduction without acknowledging the contribution to our work of the many hundreds of organisations and individuals who took the time to respond to our reports, attend our 41 consultation events, and to undertake their own investigations and work to inform our deliberations. There is simply not the space to list them, or the contributions they have made, in this Report, but we do hope that they can recognise their efforts in at least some of the conclusions we have drawn, and the recommendations we have made, over the previous two years.

Box 1:

New developments in the education and training system during the Task Force's lifetime

- Creation of a Learning and Skills Council, an important structural change in the education and training system which will bring together budgets for all post-16 education and training outside Higher Education. The LSC must provide strong leadership and ensure that education and training provision is driven by customer needs and takes account of changes in the labour market.
- Rationalisation of the vocational qualifications system now underway by the Qualifications and Curriculum Authority, including the development of vocational certificates specifying knowledge and understanding which are related to occupational standards and which can be taken alongside those qualifications attesting to competence.
- Improvements to apprenticeship and pre-apprenticeship programmes, enhancing the quality of Modern Apprenticeships by strengthening off-the-job training and improving the instruction received by apprentices, and re-positioning National Traineeships as Foundation Modern Apprenticeships with the expectation that more trainees will progress to Advanced Modern Apprenticeships.
- Proposals for a 2-year 'foundation degree' closely related to employment, providing another element in a coherent progression route for a broad range of students, particularly for those engaged in vocational learning.
- Publication of *A Fresh Start*, the report on adult basic skills by Sir Claus Moser's working group, and first steps by Government towards implementation of the strategy it proposed.
- Encouragement to students to take a broader range of subjects after age 16 including maths, and work on a new post-16 maths qualification for those less inclined toward pure maths but capable of pursuing the subject to AS level. Also promotion of maths through the *Maths 2000* campaign.
- Development of the Learning and Work Bank, an ambitious attempt to harness new technology to make information on job vacancies, learning opportunities and careers more widely available.
- Increased emphasis in New Deal on opportunities to acquire generic skills, and new schemes to make IT and basic skills training available to a wider range of unemployed people.

CHAPTER 1

VISION FOR A NATIONAL SKILLS AGENDA

Vision

- 1.1 The economic vision we set out for the UK in our first report - of a high skill, high value added economy delivering both competitiveness and social cohesion - remains unchanged. To achieve the necessary balance between wealth and employment creation, we must ensure that opportunities to attain and maintain skills appropriate for the knowledge economy of tomorrow are available to all our workforce, and not just to a high-skilled elite.
- 1.2 The connection between these economic and social goals is unequivocal. Only by maximising the skills of our whole labour force, can we ensure that our wealth creating businesses have the capacity and flexibility to compete successfully in the globalised economy; only by maximising their skills, can we ensure that all those in the workforce have the economic and social opportunities to which they aspire. Inclusivity must be our watchword - consigning a significant section of our population to a low skilled future, with the employment and economic instability that implies, cannot be an option.
- 1.3 We must maintain a broad definition of skill. Employers require not only specific vocational skills, but also the softer and transferable employability skills, and the capacity for creativity, initiative, and continuing learning and development, for the new and flexible forms of work organisation which will be tomorrow's norm. We fully recognise the need for a high level of technical and specialist skills in many of our workers, and employers' concerns that too many new recruits are unable to properly apply their acquired knowledge and skills to real challenges in the workplace. Equally, we acknowledge the danger of an artificial polarisation between training and education, and of the pressure for isolating competence from underpinning knowledge and understanding, and from the wider cultural benefits which come from learning.
- 1.4 The findings of our extensive research programme confirm that the challenges the UK faces are not merely related to the infrastructure of public, private and voluntary providers, and the curriculum, qualifications and funding frameworks within which they operate - what is often called the 'supply side' of education and training. In Chapter 2, and the companion research report, we expand on the real problems that we also face in relation to the 'demand side' of skills - from some employers, in relation to their commitment and capability to support the continuing development of their workforce, and from far too many adults who lack confidence, and remain unwilling to seek or participate in further learning.

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1.5 Against this background we see a National Skills Agenda as having the following goals:

- (i) to successfully instil a culture of lifelong learning in the UK in which all individuals and employers recognise the importance of regular re-skilling and upskilling, and have the confidence and capacity to succeed;
- (ii) to identify and anticipate better the evolving skills requirements of employment, and ensure that effective information, advice and guidance enables individuals and firms to make informed choices about learning which better match those needs over time;
- (iii) to ensure that everyone has the opportunity to acquire a sound foundation of the basic skills of literacy and numeracy, key skills and technical knowledge and skills, which equips them properly for working life and widens opportunities for further learning and economic mobility;
- (iv) to maximise the opportunities for all those in the workforce (including the temporarily unemployed) to develop new skills and broaden their skill base so they can adapt flexibly and successfully to industry and occupational change;
- (v) to promote a proper balance between general education, vocational education and work based learning, and in particular to enhance the status and quality of vocational education and training;
- (vi) to manage the post-16 education and training system so that we establish and maintain a sound match between skills needs and skills supply, and so minimise the negative economic and social impact of skills shortages and gaps.

1.6 The goals of ensuring that everyone has the opportunity to reach a minimum skill level, and strengthening the vocational education and training system, are closely linked. The absence of a fully developed vocational route in England has been one of the main reasons why attainment amongst less academically inclined young people has historically been so low. There has not been sufficient incentive for such young people to do well at school, and they have thus not had equitable access to skills and economic opportunities in the labour market. That is why seeking a better balance between the general and vocational routes to learning forms a specific high level recommendation in this final report: it reflects the fact that this long standing and important gap in the system requires special attention.

1.7 The sixth goal, of establishing more effective management of the whole post-16 education and training system has, at its heart, the aim of ensuring that we need never establish a Skills Task Force again. Meeting the skills needs of the future will be far easier for a system equipped to monitor, identify and respond to skills shortages and gaps as they emerge, than one in which slow and inadequate responsiveness periodically necessitates a major upheaval.

Components of a National Skills Agenda

1.8 A National Skills Agenda would therefore have three main components:

- an action plan for changes in the curricula, qualifications, apprenticeships, funding and institutions of the post-16 education and training system to produce the required improvements in the skills 'supply side' designed to tackle the priority areas of skills deficiencies;
- an approach to the continuing management of post-16 education and training, using levers such as funding, planning, labour market information, guidance and others, that shapes both the demand for, and supply of, skills over time so minimising skill shortages and gaps in the future; and
- clear and explicit targets for improvements in skill levels, plus measures of our performance in managing the match between supply and demand, to raise public confidence, drive progress and monitor success.

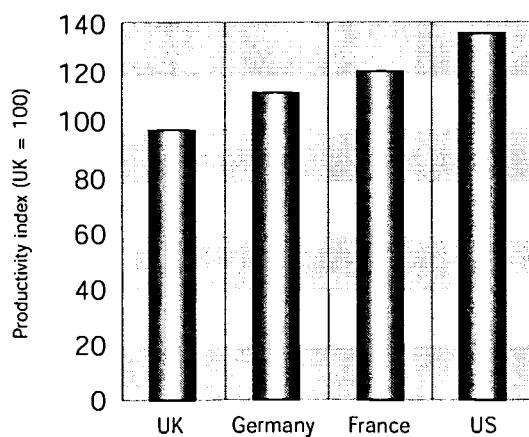
1.9 We believe that it is essential that, to the maximum extent possible, these elements are widely understood and accepted. To be effective, the National Skills Agenda must be a shared agenda. Government, employers, providers and individuals must accept a shared responsibility for this challenge, and each strive to make an effective contribution. We return to this point in the final Chapter.

1.10 Ours is not an agenda designed to shape the whole of national education and training policy. Education and training encompass more than the development and delivery of skills and knowledge relevant to employment. However, we believe that a lack of a specific strategy for work-related skills has been a gap in UK policy for far too long and, in part, reflects too much of a pre-occupation with participation and general attainment from education, rather than the economic and social outcomes which should accrue from learning.

Why skills and a National Skills Agenda are important

1.11 Our proposals for a National Skills Agenda will have substantial social and economic benefits. On the economic side, they will help to raise productivity and reduce structural unemployment. The contribution to productivity is an important one if we are to keep pace with our international competitors, many of whom out perform us at present. As Figure 1.1 shows, productivity as measured by output per worker is 13% above the UK level in Germany, 21% higher than the UK in France and 36% higher in the US.

Figures 1.1: Productivity index - output per worker 1998 (UK = 100)



Source: OECD

1.12 Investment in skills along with investment in capital and R&D are two of the most important factors driving productivity growth. Skill levels can affect productivity both directly and indirectly. Direct effects include enabling employees to meet higher standards of accuracy, quality and customer care. They also include enabling employees to participate effectively in more efficient forms of work organisation requiring greater initiative, communication, self-reliance and problem-solving abilities. The indirect effects of skills include encouraging and enabling more effective capital investment and more rapid technological progress.

1.13 There are a growing number of international studies showing that higher levels of education amongst the workforce are linked to higher levels of per capita income. But it is nevertheless difficult to produce quantitative estimates of the impact that improvements in skill levels can have on economic performance, the nature of the links are complex and include many other factors, not least the types of skills involved and the ways in which they are utilised. We do know however that even small changes in productivity can have a significant impact on output. Even if we could improve the supply and use of skills in the UK such that they increased productivity growth by only 0.1 per cent a year the economy could generate somewhere in the region of £10 billion more output over the next ten years. If we could close our labour productivity gap with Germany, we would generate £50 billion more output over the same period.

1.14 Despite the difficulties in isolating and measuring the precise impact of skills in quantitative terms there is sufficient evidence to illustrate the mechanisms by which the skill levels of the workforce can directly affect efficiency and productivity. Studies comparing UK firms with similar firms in Continental Europe have found that the superior productivity of Continental firms was related to higher skill levels among their workforces. These greater levels of skill enabled shopfloor workers to perform a wider range of tasks, allowed faster introduction of new technologies and resulted in less downtime - all factors which contributed directly to the productivity gap.

1.15 Employers who invest in developing a more skilled workforce through training reap benefits in terms of increased value added per worker and higher productivity levels. And there are good reasons for thinking that the productivity effects are further enhanced by what economists call 'spill over' effects. For less skilled employees benefit from working alongside higher skilled staff as, through natural interchanges at work, they learn more and thus become more skilled themselves. Further, a high level of skill throughout a firm's workforce can help to improve communications between different segments of the workforce and promote a sense of shared objectives.

1.16 We focus heavily in this report on the need for a stronger vocational education and training system because, as our companion research report confirms, intermediate and associate professional vocational skills represent the largest skills gap by far between the UK and our major European competitors, and the primary areas in which we have identified substantial skills shortages. The costs of such shortages and gaps are felt most strongly in the form of lost orders, lower product reliability, less innovation and longer product design cycles, and higher costs. They can also lead to a devaluing of technical excellence, care and quality in production.

1.17 Evidence from our major employer survey highlights the number of UK companies that, in response to global market pressures, are adopting a wide variety of product, process and organisational changes to remain competitive. Their strategies can include improving product quality, moving to higher value added product areas, adopting more flexible work practices,

introducing new business processes, multi-skilling and devolving more responsibility to the shop floor or customer interface whilst shedding layers of middle management. In virtually every case, employers discover that the success of such organisational changes depends substantially on re-skilling or upskilling their workforce, and that this in itself requires their employees to have a sound foundation of basic, key and technical skills. Where employees don't have this foundation, employers can be faced with abandoning necessary competitive change, or incurring additional and significant costs and delays in implementing change.

1.18 The evidence of the value of skills for individuals is also unequivocal. Those with low, no or superseded skills face both a higher risk and longer periods of unemployment than others. Our companion evidence report clearly shows the link between re-skilling and upskilling, and significantly increased individual earning capacity. But it is important not to see skills as generally providing a direct impact on unemployment - their contribution to overall employment growth, as distinct from individual employment opportunity, is indirect. By increasing competitiveness and productivity, and by raising innovation and added value, higher levels of skills enable businesses to expand and contribute to opportunities for both job and enterprise creation. Analysis of these additional jobs confirms that most new employment growth is either in jobs which require Level 3 or 4 skills, or previously less skilled jobs where a sound level of basic and key skills, and some form of vocational qualification is now the norm. Successfully bringing the low skilled and unskilled unemployed back into the active labour market on a sustainable basis now requires a significant investment in education and training.

1.19 Aside from the economic and employment returns from skills, there is increasing evidence that they have important social benefits too. In numerous studies, people at work have said they want interesting jobs that give them a feeling of competence and a sense that they are making a valued contribution. Higher skill levels offer individuals access to more responsible and satisfying jobs, increasing the opportunity for higher job satisfaction and fulfilment.

1.20 Better-educated people also tend to be healthier and live longer. US research shows, for men in particular, substantial differences in mortality by level of educational attainment. Education is linked to a lower risk of crime through helping to socialise young people who remain in school. Reducing early school drop-out and failure appears to contribute significantly to avoiding crime and anti-social behaviour amongst young people. Where overall skill levels are low across a sub-region, this can result in serious patterns of deprivation, low employment, and poor economic activity. The Employment and Education Action Zones established by the Government are located in such areas, and much of the regeneration focus of Single Regeneration Budget projects and Regional Development Agencies is targeted on addressing these problems.

1.21 Our call for a new national crusade for skills has the widest of economic and social ambitions. Meeting our challenge will depend fundamentally upon the collaborative commitment of all organisations - employers and employer bodies, trade unions, education and training providers, and the government - to work together to enable the nation to thrive in the 21st century's knowledge economy. The National Skills Agenda will work if it succeeds in providing a common agenda for that collaborative programme - we cannot afford to allow it to fail.

CHAPTER 2

ASSESSMENT OF MAIN SKILLS GAPS AND SHORTAGES

Introduction

2.1 Where are the main skills gaps and shortages? This is the apparently straightforward question which arises from our terms of reference. Providing an answer is far from simple, though essential if we are to establish priorities for the national skills agenda.

2.2 In this chapter, we set out our judgements on where the main skills gaps and shortages are, based on a careful review of the evidence. We have not relied solely on any one source of evidence but have instead brought together a wide range of research and analysis, much of it new and specifically commissioned for us. The evidence presented here draws out the headline findings of the far more detailed research report published alongside this one. In addition to assessing the current position, we look forward to what the changing structure of employment might look like. In practice, the main skills gaps we identify are not transitory and can be expected to persist into the foreseeable future unless they are addressed.

2.3 In commencing our work, the Task Force decided to undertake a substantive review of skills needs and challenges across all key industry sectors and all skill levels. A full list of the 29 reports published as part of that research programme is provided in Annex D. The evidence we have considered identifies the following six main areas of skills deficiency:

- **basic skills** - those of literacy and numeracy, the basic building blocks on which to build other skills;
- **generic skills** - those transferable skills, essential for employability, (and defined in the relevant section below) which are relevant at different levels for most;
- **mathematics skills** - where we have a poor supply coupled with increasing demand for mathematical capability significantly above basic numeracy;
- **intermediate level skills** - specific occupational skills needed in intermediate jobs ranging from craft to associate professional occupations i.e. at Levels 3 and 4;
- **specialist information and communications technology skills** - professional skills needed in the Information and Communications Technology (ICT) sector, and by ICT specialists in other industries - those 'e-skills' at the heart of the knowledge economy;
- **major adult skill gaps** - the large proportion of the adult workforce with no qualifications or qualifications below Level 2.

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2.4 We considered skill needs at all levels in the labour market including at the higher managerial and professional level. At the managerial level, we were not able to identify specific managerial skills that were in short supply, but found a worryingly high proportion of managers and proprietors with either no qualifications or only qualifications below Level 2, and poor IT generic skills. We discuss these issues under adult skill gaps below. Part of our concern about mathematics attainment relates to the way it limits the pool of more able students who are capable of undertaking higher level technology related courses e.g. in parts of engineering and electronics. We also recognised the concerns that many employers have about the generic skills of graduate recruits, and an increasing call for some managerial skills for a wider cohort of the workforce, and deal with these concerns under the heading of generic skills.

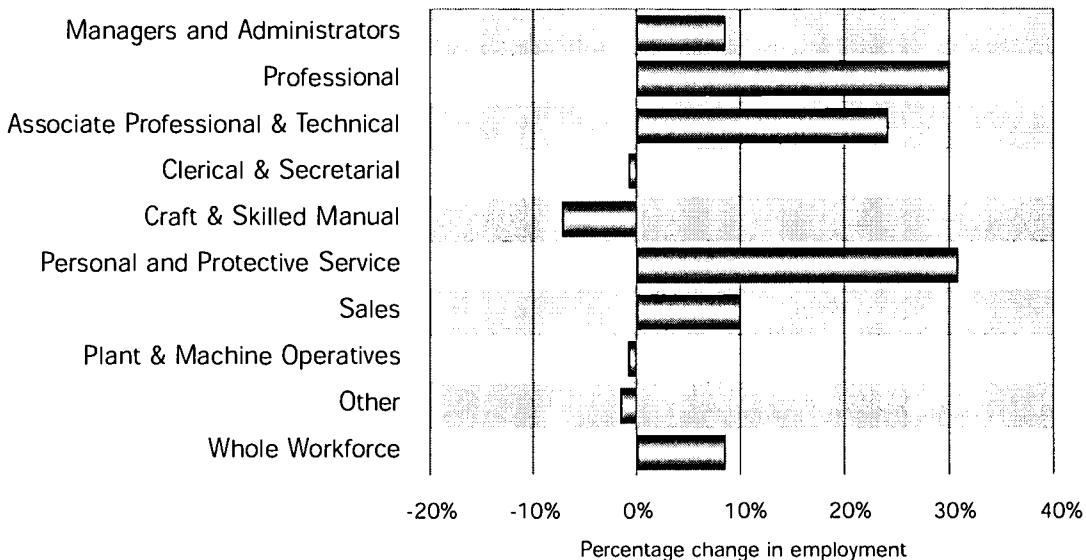
2.5 The following section of this chapter provides an overview of general trends in skill supply and demand, and the extent and nature of skill shortages and gaps. This is followed by an analysis of the six main skills challenges we have identified and examines the combined and often inter-related effects of both skills shortages and skills gaps¹. This analysis is the foundation for much of what we say in Chapter 3 about the structural changes required in the education and training system.

Overview: trends in skills demand and supply

2.6 Over the past 30 years, millions of new jobs have been created in managerial, professional and associate professional occupations (the share of these occupations having increased from 28% of the workforce in 1981 to 36% in 1998). The number of jobs classified as elementary and operative has fallen from 30% of total employment in 1981 to 23% in 1998. These trends are expected to continue, (Figure 2.1 below) though the rate of change is uncertain, and the forecasts we have commissioned suggest that by 2009 40% of jobs will fall into the managerial, professional and associate professional categories, with only 21% in elementary and operative jobs, and 12% in elementary jobs alone.

2.7 Partly in response to these changes in the nature of employment, there has been a substantial rise in the proportion of young people continuing in education and training after school, and especially in the proportion entering higher education. This has been the main factor behind the substantial rise in the qualifications of the workforce. In 1979, just over one half of the workforce held some form of formal qualification compared to almost nine out of ten now. The proportion holding a qualification at Level 3 or above has risen from 23% in 1979 to 45% in 1999.

¹ We defined these different skills problems in our First Report as skill shortages (a genuine shortage in the accessible labour market of the skill being sought), and skill gaps (a deficiency in the skills of existing employees or new recruits).

Figure 2.1: Occupational changes 1998 - 2009

Source: Institute for Employment Research, 2000

2.8 International comparisons, however, still show we lag behind other European countries. The 1996 Skills Audit first highlighted the significant differences in qualification levels between the UK and many other competitor countries including France and Germany. An updated comparison of levels between those three countries, based on 1998 data, confirms that the UK still has around 50% fewer people qualified to level 2 than either France or Germany and only half as many people qualified to level 3 as Germany. (See Figures 2.6a and 2.6b in the Intermediate Level Skills section overleaf.)

2.9 Our survey of employers undertaken in Autumn of last year found that among those employing more than 5 people there were 560,000 job vacancies in England². Of these vacancies approximately 20% were described as "hard-to-fill vacancies due to a lack of skill" - what we describe from here on as skill shortages. In addition, over 20% of firms considered that a significant proportion of their employees were not fully proficient to do their current job³. These figures are likely to underestimate the extent of the true skills gap as it is evident that firms' thinking on their human resources strategies tend to lag behind thinking about other aspects of their business strategy.

2.10 In our Third Report, we described the results of international comparative studies on employer provided training, which confirmed that over the last 15 years, the UK's performance had improved markedly relative to other European countries. The proportion of the workforce receiving training in the previous four weeks has increased from 10.6% in 1986 to 15.9% in 1999, although the rate of increase has been slowing recently. The Continuing Vocational Training Survey found that 82% of UK firms provided training for their workforces, compared to a twelve country EU average of 57%, with only Germany and Denmark reporting a higher proportion than the UK.

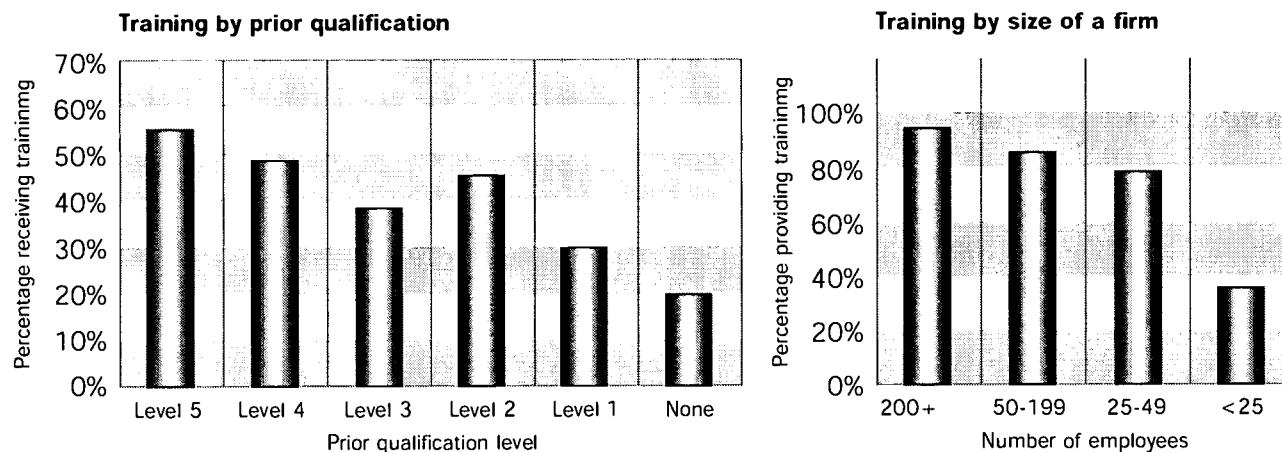
² This figure is not comparable with estimates of 1 million vacancies in the economy which are based on an extrapolation of Employment Service vacancies. The ES based figure related to the stock of vacancies over a given period (ours is a snap shot on a particular day) and covers firms of all sizes.

³ This is the proportion of firms who said that on average at least 35% of their staff were not fully proficient.

2.11 But the volume and provision of training does not of itself ensure that there is equal distribution of opportunities for training to all workers. Much of the research base in recent years confirms that access to training and continuing personal development is not evenly spread amongst the existing workforce. Whilst overall levels of workforce training in the UK are now comparable to or better than our European counterparts, three groups stand out as significantly disadvantaged relative to the norm:

- **less qualified workers**, where the International Adult Literacy Survey shows that more than half of those qualified to Level 4 or above received training in the year before the survey, compared to only about a quarter of those qualified below Level 2 (Figure 2.2a);

Figures 2.2a and 2.2b:



Source: DfEE, International Adult literacy Survey, 1997; DfEE, SNIB Survey, 1998

- **part-time workers**, where the same survey shows that 46% of full-time workers received training in the year before the survey, against only 28% of part-time workers - the figures on temporary workers are more ambiguous, but there is reason to believe that they too receive less training than their permanent counterparts;
- **workers in smaller firms**, where the Skills Needs in Britain Survey showed that 80-90% (depending on size) of firms employing 25 or more staff provided some off-the-job training to their staff, against only 36% of firms with fewer than 25 employees. (Figure 2.2b)

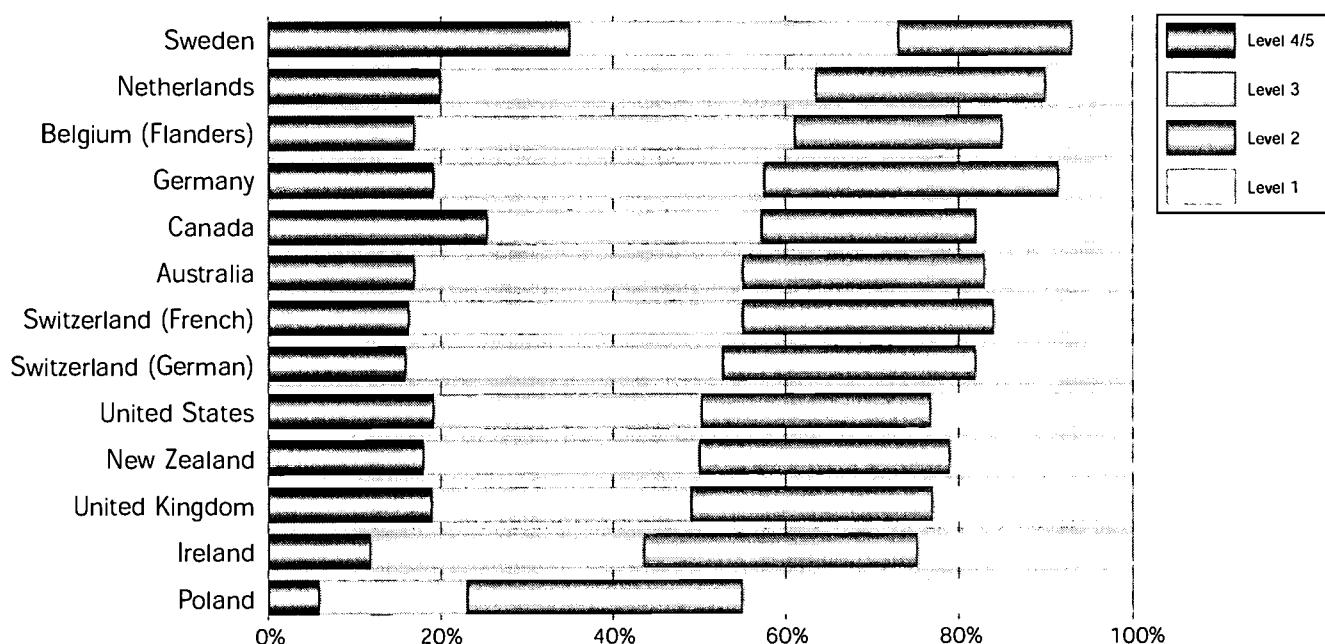
2.12 The latter finding is not surprising given that smaller firms have far less access to internal expertise for personnel and training compared to larger firms. Over 90% of firms with 200 employees, and 71% of firms with more than 50 employees, have access to some significant level of dedicated personnel and training resource, the vast majority being full-time. However, only 21% of firms with less than 50 employees, and 15% of firms with less than 25 employees have access to even part-time personnel and/or training support⁴. From a qualitative perspective, many studies confirm smaller firms' complaints about the complexity, cost and bureaucracy of the education and training system as one contributor to this lack of off-the-job training provision for their employees.

⁴ British Chambers of Commerce, Parental Leave Survey, July 1999

Basic skills

2.13 Seven million adults in Britain - one in five - are functionally illiterate. This means one in five adults, if given the alphabetical index to the Yellow Pages, cannot locate the page reference for 'plumbers'. Problems with numeracy skills are believed to be even worse with some researchers estimating that nearly half of all adults in Britain have numeracy skills below the level expected of an eleven-year-old. One in four cannot calculate the change they should get from £2 when they buy one item for 68p and two more at 45p. The International Adult Literacy Survey carried out in 1997 found that Britain came tenth out of the twelve participating countries in terms of the numbers of people with inadequate (i.e. below Level 3) levels of literacy (Figure 2.3) and numeracy.

Figure 2.3: Adult (aged 16 - 65) document literacy level 1994/95



Source: International Adult Literacy Survey

2.14 These problems have serious consequences for both the individuals and for those who employ them. There is evidence that those with poor basic skills can also act as a brake on the performance of organisations. For example, our employer survey found that over 40% of employers who wanted to improve their product or service said they would need higher levels of literacy and numeracy skills in their workforce before they could do so.

2.15 A lack of basic skills also has a significant impact on individual earning capacity. Recent research shows that for individuals with similar parental backgrounds and abilities, even a person who acquires the level of literacy expected of an average 11 year old earns around 10% more than the person who never reaches that level. The additional wage return for an equivalent difference in numeracy is 6%. This confirms the individual economic benefit of even low level literacy and numeracy; higher skill levels offer a substantially greater potential. People with poor or no basic skills are also far more likely to become, and stay, unemployed.

Generic skills

2.16 We consider employer needs for generic skills in the companion research report. Employer survey evidence confirms that employers continue to seek the six key skills originally established by the National Council for Vocational Qualifications:

- communication, including oracy
- application of number
- information technology
- team working
- improving own learning and performance
- problem solving.

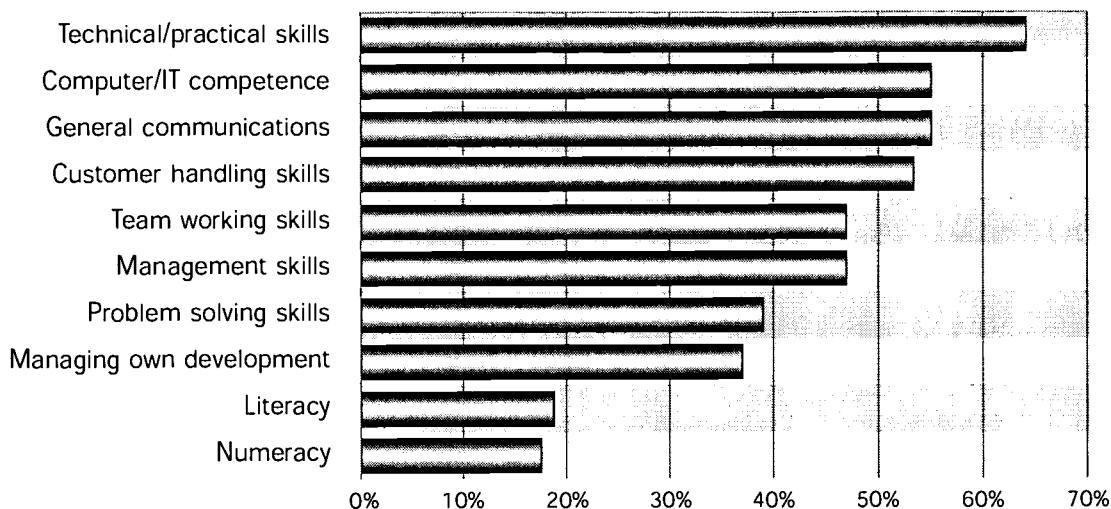
2.17 Our major employer survey also identified additional skills and attitudes that some employers want, dependent on occupation, including reasoning skills, scheduling work and diagnosing work problems, work process management skills, the ability to visualise output and work backwards for planning purposes. In this Report, we use the phrase 'generic skills' to incorporate the six key skills, and such additional transferable skills as employers may need over time.

2.18 Generic skills are needed in all jobs and demand for them has increased as the nature of employment has changed, reflecting the shift to service sector jobs and developments in technology and work practices. Flatter management structures mean that many workers now take responsibility for their own work scheduling. There is a greater emphasis on working in formal and informal teams; a greater premium on the ability to negotiate and persuade. These changes and a greater focus on customer service all mean that most workers now require a higher level of generic skills.

2.19 Graduates in particular are expected to have a good level of these skills. Even in traditionally technical graduate occupations (in engineering, science and IT), communication and presentation skills are growing in importance due to new ways of working. Increasingly, employers in many sectors consider the generic skills of their graduate recruits to be as crucial as their technical competence. Research has shown that many graduates themselves consider generic skills to be those most important for success in the labour market.

2.20 Figure 2.4 below lists the most significant skills gaps employers identified as applying to their existing workforce in the 1998 Skill Needs in Britain Survey (employers could nominate multiple gaps). Although technical and practical skills were still the highest need, the remainder of the list incorporates the primary basic and key skills as the biggest gaps. Our own employer survey in 1999 also found that the generic skills were posing important challenges in many cases of skills shortages. 31% of employers with skill shortage vacancies said the main skill they were looking for was communication skills, 26% said team working skills and 21% problem solving skills.

2.21 Importantly, it is generic skills that employers say they most need when seeking to move into new product markets or to improve service quality. Over 70% of firms seeking to move into higher quality products or services said they would need additional team working skills and customer handling skills to do this, with 60% or more saying they would need additional communication and problem solving skills.

Figure 2.4: Employer skills gaps - existing workforce

Source: Skills Needs in Great Britain and Northern Ireland, DfEE, 1998

2.22 Within the key skills, ICT (Information and Communication Technology) is an area of central importance, and Figure 2.4 confirms that the ICT awareness and competence of many adults is the most significant generic skills problem employers face with their existing workforce. However, when a parallel question was asked of the same employers about the main skills gaps amongst 16-17 year old new recruits, IT skills were ranked only seventh (after customer service skills and the other five key skills). Good progress is being made in developing the teaching of ICT skills in schools, though as we see below, there are still real problems recruiting young people into specialist ICT careers.

2.23 Employers have also noted that the changes in work organisation and flexible working methods and structures means that far more employees are needing to acquire and use skills that would previously have been the domain of management. Goal setting, delegation, problem solving, conflict resolution, service excellence for customers, production judgements can all be expected of those front-line and shop floor workers who increasingly have devolved responsibility for business decisions. Our employer survey identified that there was as strong or stronger a need for additional 'management capabilities' (confirmed by Figure 2.4 above) amongst all staff of companies moving into new product markets or looking to improve service quality as for other generic skills. Many respondents have suggested that 'management' should become a seventh key skill, perhaps starting at Level 3, to recognise the extent to which management competencies are expected of a growing proportion of the workforce, even amongst those not directly supervising staff. (We discuss the skill levels of small business managers and proprietors below under 'Major adult skill gaps'.)

2.24 It is important to stress however, that technical/practical skills i.e. occupationally specific skills, still remain of critical importance. This may be best illustrated by the skills employers say are the shortage skills in hard-to-fill vacancies. Half of all employers reporting skills shortages indicated that technical and practical skills were their most significant need. In professional, associate professional and particularly craft and operative occupations, it was the necessary technical skills that were proving most difficult to find, and we discuss this issue below. Only in managerial, personal service and sales occupations, did employers say that the need for generic skills outweighed the need for technical skills. Generic skills are of vital importance but they are not the whole story.

Mathematics

2.25 The ability to work with numbers and solve problems based on mathematical constructs is a vital underpinning skill for many occupations. Furthermore, many employers consider that the learning and practice of mathematics develops more general problem solving and systems thinking skills that are extremely valuable in the labour market. It is for this reason that people with qualifications in mathematics based subjects such as engineering are so attractive to other sectors like finance and banking. Research shows that, other things being equal, young adults with A level mathematics earn a significantly higher wage (some 10% higher) than those with GCSE mathematics⁵.

2.26 The root of the problem is that the UK does not produce a sufficient pool of young people with good mathematics skills. We start from a shallow pool at a young age - just 45% of young people gain a grade C in mathematics at age 15. Our supply of people who choose to develop mathematics skills beyond this modest level is very much smaller - less than 10% of 18 year olds gained A level mathematics in 1998. While international comparisons are difficult due to the variety of qualification systems which are used in different countries, there is evidence that this compares poorly internationally. In the latest years for which data is available 16% of young people in France and 27% in Germany gained levels of mathematics skills equivalent to A level. Our shortage of mathematics skills is underpinned by the low levels of numeracy of 25% of young people and adults highlighted in the earlier section on basic skills.

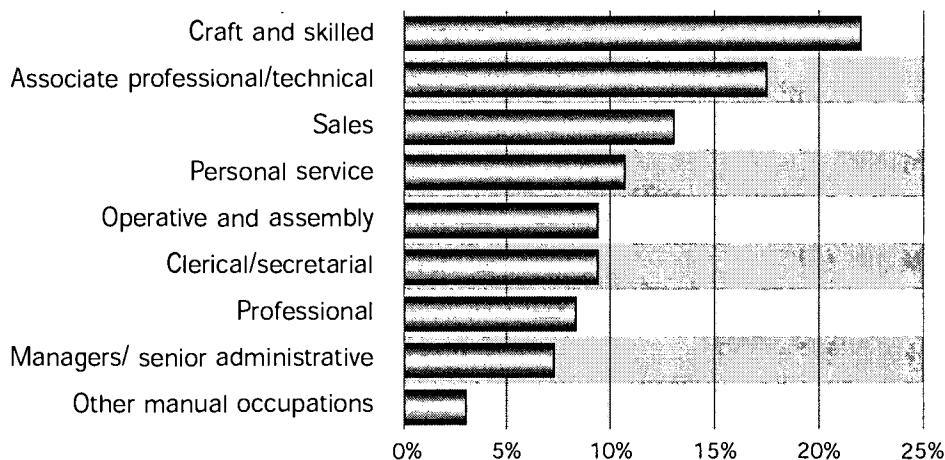
2.27 It is not surprising therefore that at the highest levels there are problems in filling courses which demand a good knowledge of mathematics. There are only as many new entrants to HE (Higher Education) engineering courses now as there were in 1985 despite the rapid expansion in HE provision in this period. Only just over 1% of those gaining a first degree in 1998 gained a degree in mathematics - nearly twice as many graduated in history. This leaves us with a very limited pool of people with the technical skills demanded in a wide range of essential jobs in the economy.

⁵ Dolton, P.J. and Vignoles, A., University of Newcastle upon Tyne and the Centre for Economic Performance LSE, The Economic Case for Reforming A levels.

Intermediate level skills

2.28 We use this phrase to describe the range of occupational skills needed to be effective in intermediate level occupations - covering craft, clerical and associate professional jobs - typically requiring qualifications at Levels 3 and 4. The Task Force Employer Skill Survey found that 48% of all skill shortages were in these occupations (as shown in figure 2.5) - of that group, 35% were in associate professional occupations and a further 45% in craft level jobs. Almost invariably, jobs in intermediate occupations call for a mix of technical and practical skills, alongside generic skills. This is confirmed by our employer survey as it was in these jobs that employers were most likely to say that the skills proving difficult to find were of a technical or practical nature.

Figure 2.5: Total external skill shortages by occupation



2.29 Most of the employment growth over the past 25 years has occurred at the associate professional level. Here the need is for good creativity, communication and business solution skills to meet the demands from "new jobs" in the finance, business services and leisure sectors. Graduates have filled many of these jobs. Rapidly rising salaries in these occupations (rising from 124% to 143% of average male earnings between 1975 and 1998) suggests there have been some difficulties in attracting people with the right mix of skills.

2.30 Employment in craft and technician level jobs has actually fallen. However, craft and technician level workers remain vitally important for most production functions, and an ageing craft workforce means that the number of vacancies (as distinct from the total number of jobs) is still set to grow over the next ten years. It is the lack of spare capacity at this level that results in craft and technician level jobs being so frequently identified as skills shortages when firms seek to expand. The 1999 EMTA survey⁶ of engineering firms found that nearly three-quarters of all hard-to-fill vacancies in engineering were at craft and technician level.

2.31 The market is signalling a continuing healthy demand for relevant skills in this area. Recent research has found that the rate of return on earnings to those vocational qualifications most associated with craft and technician level jobs to be considerable - between 5 and 10% per annum for Level 3 qualifications (ONC/OND) and between 5 and 12% per annum for Level 4 qualifications (HNC/HND). This rate of return is comparable to equivalent academic qualifications (when calculated on an annual basis to account for the part-time nature of most vocational courses).

⁶ 1999 Labour Market Survey of the Engineering Industry in Britain, EMTA

2.32 The UK continues to have a problem with the supply of qualified young people with craft related vocational qualifications (Levels 2 and 3). As Figures 2.6a and 2.6b below show, comparison between the UK, France and Germany in relation to 25-28 year olds suggests that the apparent progress made by the UK in the qualification levels of young people aged 19-21 may be misleading. The gap is most pronounced with Germany which has double the proportion of 25-28 year olds at Level 2 and treble the proportion at Level 3 compared with the UK.

Figure 2.6a: Qualifications held at Level 2 by different age groups

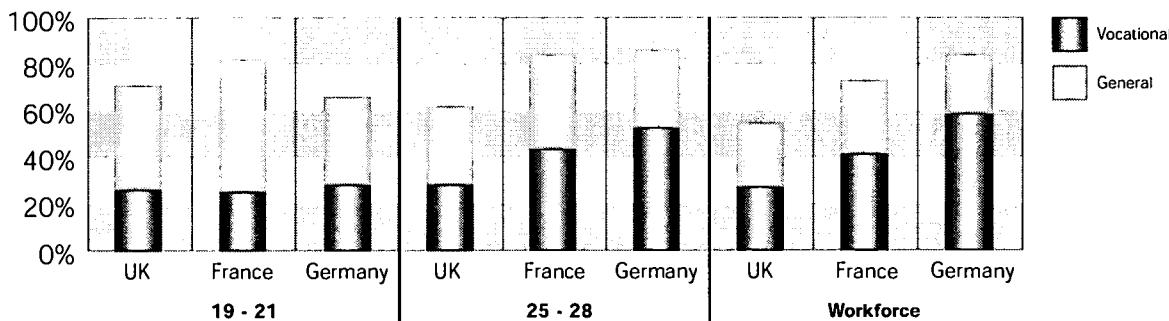
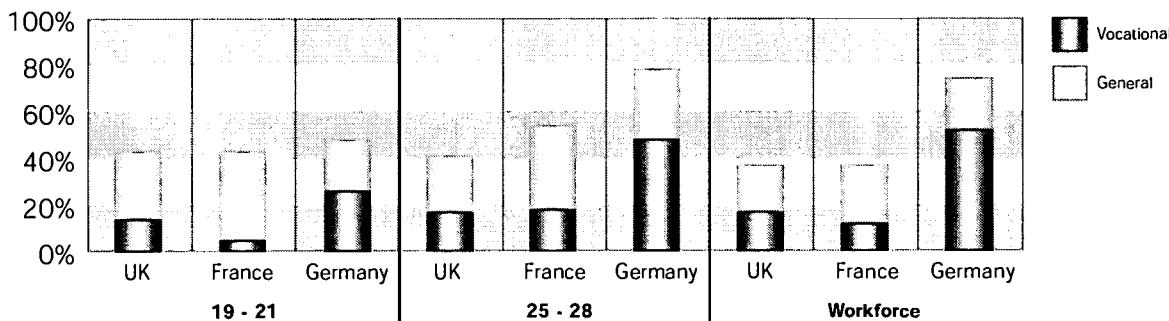


Figure 2.6b: Qualifications held at Level 3 by different age groups



Source: Updating the Skills Audit data 1998 (2000) - unpublished

(1) Aged 16-64 (UK women aged 16-59)

(2) Former Bundesrepublik (FRG)

Note: the figures for Germany are for 1997.

2.33 This problem is compounded by falling numbers taking traditional technician and associate professional level qualifications where, for example, the number of registrations with Edexcel for HNC and HND courses in engineering, technology and manufacturing has fallen by over 40% since 1989/90. The changing nature of craft jobs with greater emphasis on multi-skilling (for example, combining traditional craft work with maintenance tasks previously undertaken by technicians) and multi-functioning (for example, the need to be able to schedule work, to liaise with customers and work within a team environment) is also making it difficult to find people with the range of skills needed. Employers are often employing graduates in the absence of applicants with technician and associate professional qualifications, and this has in part contributed to complaints from employers that graduate recruits have inadequate technical and commercial skills.

2.34 These circumstances make the intermediate level skills, and particularly associate professional level (Level 4), the most significant skills shortage challenge we face in the UK. It is a challenge that crosses many sectors and occupations, with our employer survey confirming this occupational level represented the most serious skills shortages in the manufacturing, construction, financial services, business services, public administration and health and social work sectors, and a significant problem in transport and communications.

Information and communications technology specialist skills

2.35 Nearly all businesses are now dependent on information and communication technologies (ICT). Such technologies are critical for the production and delivery of an increasingly diverse range of manufactured goods and services. The Internet and e-business are revolutionising the way business is conducted, and technological developments are driving constant product and service innovation as firms seek to consolidate existing markets and develop new ones in the face of ever increasing global competition.

2.36 Recent years have seen strong growth in the demand for ICT practitioner skills, particularly for IT skills. There has been a substantial increase in provision, most notably in terms of the numbers taking computer science courses in higher education, which have more than trebled in the past 10 years. However, there are concerns about the quality of students entering higher education IT courses. The mean A-level grade of UK domiciled new entrants to university IT courses in 1997/8, at 14.4 points, was 25% lower than the average for all courses. More students join IT courses through the universities clearing system than any other subject. Despite this, supply is still not keeping up with the pace of increasing demand, either in terms of the number and quality of skilled individuals, or the match of the available skills with labour market requirements.

2.37 As a consequence, and in a joint initiative with the DTI, the Skills Task Force established a specialist sub-group on information technology, electronics and communications to look at many of these issues, and how we should respond to them. The Report⁷ of this sub-group indicated that the shortages in specialised areas were not simply a result of the Millennium Bug and the introduction of the Euro, but are likely to persist for some considerable time. In part, this will be an inevitable consequence of the fast changing nature of the technology creating new demand for very particular skills and knowledge faster than the supply side can respond. Another factor significantly limiting the supply is the surprising unattractiveness of specialist ICT jobs for many young people, which explains in part the very low numbers of women seeking to enter ICT occupations. Only one third of the current workforce in these sectors is female - and this proportion is actually declining, with women representing only 20% of students on IT-related university courses.

2.38 The sub-group also examined the range of available provision and found that, although the overall volume of education and training courses had increased dramatically, too often they bore little resemblance to employer needs. In addition, the qualifications framework for ICT, with over 800 recognised qualifications, was incoherent, confusing and bore little relationship to occupational requirements or structures in the industry.

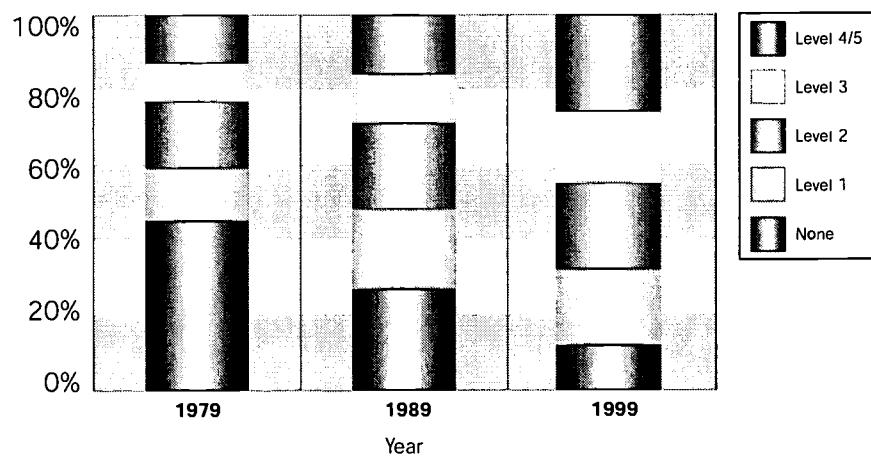
⁷ Skills for the Information Age, DfEE, 1999

Major adult skill gaps

2.39 Despite the growth in qualifications to which we referred in the overview section of this chapter, the majority of the workforce still have either no or low level qualifications. As Figure 2.7 below shows, one-third of the adult workforce do not even hold a Level 2 qualification (the equivalent of 5 GCSEs Grade A to C) and, for over half the workforce, the highest qualification held is Level 2. Furthermore, most of the growth in qualifications over the last 20 years has been generated by rising attainment amongst new entrants to the labour market, not by adult upskilling. It is not surprising, therefore, that the likelihood of holding any formal learning qualification falls dramatically with age. A 40-49 year old is more than twice as likely to possess no formal qualifications compared to a 20-29 year old; and a 50-59 year old is almost 4 times as likely to possess none.

2.40 Inevitably, a focus on formal qualifications is likely to underestimate the skill levels of older workers, given the greater focus on learning to formally certified qualifications in recent years. Nevertheless, even where workers have acquired sound job specific skills over many years, they can often lack the complementary broader knowledge and understanding, and the wider generic skills, particularly IT skills. Consequently, older unqualified workers can be more vulnerable to labour market changes affecting their existing jobs and unable to make a successful transition to new work.

Figure 2.7: Qualifications levels in the workforce



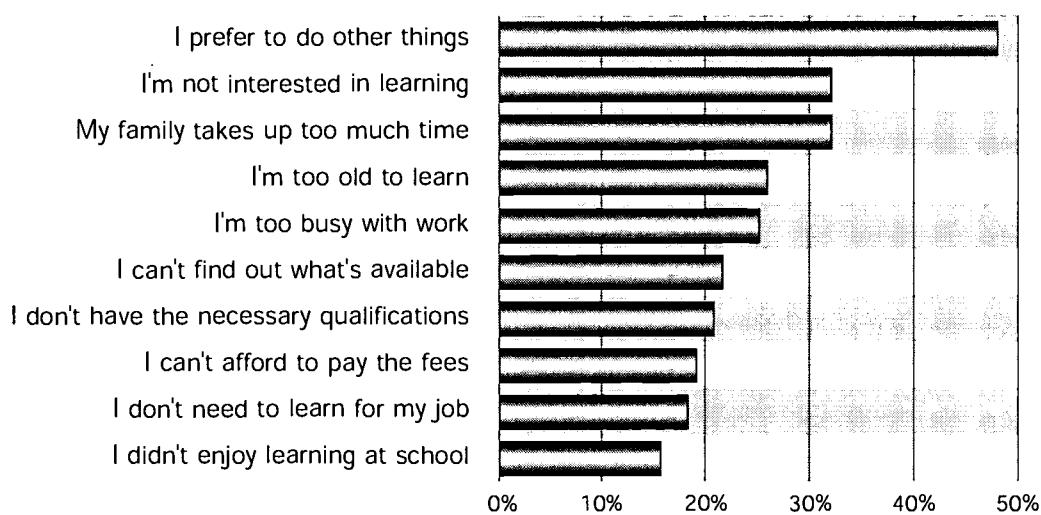
Source: DfEE, Labour Force Survey, 1979 - 1999

2.41 The majority of the 32% of adult workers without a Level 2 qualification are also part of that group of one in five workers, described above in the section on Basic Skills, who are functionally illiterate and/or innumerate. Many either refuse to or don't recognise their shortcomings in these areas, and some have found ways of working around and disguising the problem. Before it will be possible to consider engaging them in productive learning to raise their skill levels, it will be essential to address their basic skills shortfalls first.

⁸ IER analysis of DfEE Labour Force Survey, 1998

2.42 The Labour Force Survey confirms that the majority of low or unqualified adults are in elementary occupations. The main occupations in which more than a quarter of the workforce do not have a Level 2 qualification are the traditionally low skilled jobs such as secretarial and clerical (29% below Level 2, and 17% with no qualifications at all), construction (32% below Level 2, 25% with none), personal services (39% and 31%), agriculture (51% and 43%) and other elementary occupations (62% and 52%). The one surprising occupational area with low formal skill levels is that of small business managers and proprietors where almost a third (31%) of this group do not hold a Level 2 qualification, and 27% have no education or training qualifications at all⁸. The proportion of such managers with no qualifications is more than double the 12% of the workforce as a whole who have none.

Figure 2.8: Reasons why adult non-learners don't participate



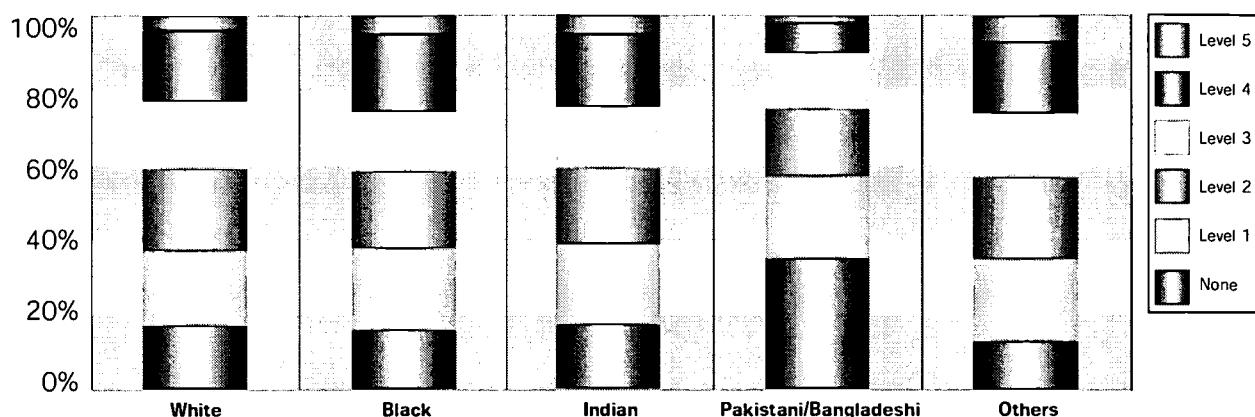
Source: National Adult Learning Survey, 1997

2.43 The National Adult Learning Survey revealed some very disturbing findings on the willingness of many adults to participate in learning. Figure 2.8 above reports the reasons given by adults not engaged in learning for their non-participation. A belief that the foundation learning system failed them, combined with a lack of confidence in their ability to succeed in future learning, means that 50% of adults who have not participated in learning for more than 10 years say nothing will induce them to try learning again. This lack of demand for, indeed this resistance to, learning is likely to present as much of a barrier to raising the skill levels of such adults as (for many of them) is their lack of basic skills.

Equal opportunities

2.44 We said in our Vision in Chapter 1 that we must ensure that access to skills and satisfying employment was provided to *all* our workforce, not just a high skilled elite. Yet the evidence from the Labour Force Survey (Figure 2.9 below) confirms that we are still not able to ensure that equity of opportunity is available to all in our nation. Pakistanis and Bangladeshis of working age in Britain have lower qualification levels than the white majority and other ethnic groups, with 35% having no qualifications compared to only 17% of white people, and 13% of other ethnic minority people.

⁸ IER analysis of DFEE Labour Force Survey

Figure 2.9: Qualifications held by people of working age

Source: Labour Force Survey, DfEE, Autumn 1999

2.45 Similar differentials can be found for other minority groupings, and other disadvantaged groups, for both employment and skills. Unemployment amongst ethnic minority men is up to three times greater than for white men, while for ethnic minority women, the figure is four times higher. Disabled people are only about half as likely as non-disabled people to be in employment and ILO unemployment rates for long term disabled people are nearly twice as high as those for non-disabled people. Disabled people are more than twice as likely as non disabled people to have no qualifications. 24% of women are qualified below Level 2, and 18% have no qualifications, compared to men where 18% have qualifications below Level 2 and 13% have none at all.

2.46 If the National Skills Agenda is to ensure skills for all, then proactive work will be required to ensure greater equity of opportunity in terms of both participation and attainment for all those who aspire to enter or remain in work, regardless of their ethnicity, gender, disability, or age.

Conclusions

2.47 In this chapter we have identified the primary skills challenges we face as a nation. A central finding is that the challenges we must address do not merely relate to the supply side - to the education and training providers, the qualifications framework and the funding system - but also to the demand side - to the willingness and capability of many individuals to participate in learning, and of some employers to provide it. Improving the performance of the supply side of education and training will not be enough. We must take substantive and effective steps to increase the demand for learning amongst adults, including raising their confidence and competence to succeed. We must also improve the understanding of smaller firms in particular of the benefits from training for their competitiveness, and their capability to make relevant training available to their staff. Given that over a quarter of managers and proprietors have no qualifications at all, it will be important to target this group directly in order to change employer behaviour.

2.48 In Chapter 3, we set out the main changes which need to be made to the infrastructure of the education and training system, and in Chapter 4 the steps that should be taken to stimulate informed demand for learning from both individuals and employers, and to manage the system to ensure supply better matches that demand.

Box 2:**Using private rates of return analysis in the identification of skills deficiencies**

In our first report we set out the distinction between *recruitment difficulties*, *skill shortages* and *skills gaps*. We defined a recruitment difficulty as any difficulty experienced by an employer in recruiting, whether it was strictly related to skills or not. We defined a skill shortage as a recruitment difficulty caused specifically by a shortage of individuals with the required skills in the accessible labour market. Finally, we defined a skills gap as a deficiency in the skills of an employer's existing workforce which prevents them from achieving their business objectives.

We have extended our analysis of skills gaps and shortages using the concept of the economic rate of return. Put simply the rate of return is the economic benefit resulting from an investment expressed as a rate of interest on the cost of that investment. Other things being equal, rates of return should be higher for investments in skills for which there is a skills shortage or gap. This would also indicate that there is a higher than average payoff to further investment in developing such skills in the labour force. The key findings of our analysis of rates of return are summarised in the two tables below, with the most relevant points being, that:

- the rates of return to vocational qualifications at level 3 and above are good and comparable with their academic equivalents;
- the rates of return to vocational qualifications at level 3 and above are highest for those individuals at the lower end of the ability distribution.

Table B2.1: Rates of return to different levels of academic and vocational qualifications

Qualification	Rate of Return	
	Males	Females
GCE A levels	7.5 - 9.0% per annum	9.0 - 11.5% per annum
ONC/OND	5.5 - 9.5% per annum	6.5% per annum
First Degree	3.0 - 9.0% per annum	7.0 - 8.5% per annum
HNC/HND	5.0 - 12.0% per annum	2.5 - 10.0% per annum

Source: Dearden et al⁹

Table B2.2: Rates of return to different levels of vocational qualifications, by prior ability

	Rate of Return			
	Males		Females	
	High ability	Low ability	High ability	Low ability
Vocational NVQ 2	0%	3.9%	0%	8.8%
Vocational NVQ 3	3.7%	9.0%	3.6%	20.3%
Vocational NVQ 4	10.9%	21.0%	6.4%	29.9%

Source: Dearden et al⁹

However, we have not been able to estimate rates of return in the precise way we would want. In common with most rates of return analyses we have estimated economic gains to a proxy measure of skill - qualifications. We have only estimated returns to types of qualifications and not to subjects. Also, we have measured these private returns in the form of the effects on the individuals' earnings. We have not been able to include the wider spin off benefits and social returns to skill. Finally, the estimates of private returns are the average for a particular qualification group and as a result may be relatively poor indicators of the marginal effect of an expansion in the numbers holding a particular qualification.

Rates of return have therefore been just one part of our analysis, supplemented by other evidence including trends in employment and qualifications, international comparisons of qualification levels and employer and employee perceptions of the skill needs and changes.

⁹ Dearden, McIntosh, Myck and Vignoles, The Returns to Academic, Vocational and Basic Skills in Britain (2000)

CHAPTER 3

FEATURES OF A NEW POST-16 EDUCATION AND TRAINING SYSTEM

Introduction

3.1 Important changes in the structure of our education system are needed to deal with the persistent skills shortages and gaps we have identified. This does not mean pulling up the entire system by the roots. There are many parts of it which are working well, and changes, listed at the end of Chapter 1, are already underway which will bring further improvements. It does mean, however, tackling some long standing problems which have reduced the incentive for people to acquire skills and have led to biases against, and thus persistent shortages of, certain types of skills.

3.2 Three clear strategic challenges arise from the evidence we have summarised in Chapter 2. Firstly, the overall skill levels of the workforce are too low, and far too many adults lack basic literacy and numeracy, together with skills and qualifications, which will equip them for continued employability in a dynamic labour market. This shortfall has major implications not only for social exclusion, but also reduces the potential for economic competitiveness. Secondly, and related closely to the first, is the need to put in place the high quality vocational learning system, the lack of which has been the subject of many reports such as this for over 100 years. Thirdly, we must overcome the major and continuing source of skills shortages at the intermediate level - craft, clerical and particularly associate professional skills at Levels 3 and 4.

3.3 If we are to respond to these challenges, and additional shortfalls in generic skills, mathematics and ICT, then we believe action is needed in three primary areas:

- to address persistent problems on the supply side of education and training, relating to the curriculum, the qualification framework, the training provider network, and the funding and management of the overall system;
- to improve the understanding of the benefits of learning amongst both employers and individuals, and stimulate a greater demand for skills and participation in learning from both employers and employees;
- to provide effective management and monitoring of the overall education and training system to ensure that demand is better informed and education and training supply is better matched to the employment needs of tomorrow.

3.4 Whilst the boundaries between these three dimensions of work are blurred, in this Chapter we focus on the first of these, the changes needed to the supply side of education and training. Most of the changes we propose have been described in our earlier reports, so we concentrate below on drawing these together to identify the key recommendations which will create the coherent system we seek. We address the second and third elements in Chapter 4.

Principles of foundation learning

3.5 Our key goal for young people in Chapter 1 was for a system that ensured all individuals received "*a sound foundation [of skills and knowledge] which equips them properly for working life and widens opportunities for further learning and economic mobility*". The first expectation we should have of compulsory schooling is that young people should emerge from it literate and numerate. They should also have sufficient general education to be able to participate effectively in society and in further learning. However, this is not enough. They need, in addition, to have acquired a sound base in the generic skills which are so much sought by employers.

3.6 The school system should offer a sound foundation for all young people, not merely those who expect to progress to university. Young people who are not motivated by a solely academic curriculum in the final years of compulsory schooling should have the opportunity to spend the equivalent of 1 or 2 days a week on serious vocational studies linked where appropriate with periods of work experience. These studies should provide the opportunity to acquire vocational qualifications which are generally regarded as providing a good base for further study in the vocational field concerned. The purpose of this flexibility should be to motivate students to do better across the curriculum and not just in their vocational studies.

Recommendation 1: The compulsory school system should ensure a sound base of basic skills, key skills and broader learning for all young people through a balanced choice of quality general and vocational options from age 14.

3.7 We estimated in our Second Report that between 65% and 70% of employment opportunities will require Level 3 qualifications by 2010. Only 41% of UK 25-28 year olds held such qualifications in 1998, and the figure for 19-21 year olds was only marginally better at 43%¹. Government should send out a clear and unambiguous message to young people, their parents and the education and training system that our sights must be set much higher if we are to compete internationally in the coming decades, and if individuals are to be able to secure satisfying and rewarding jobs. Our aim must be to encourage every young person who is able to pursue a Level 3 qualification after compulsory leaving age - general or vocational, full-time or part-time - and the public education and training system should be expected to pay for such provision. To be consistent with opportunities available to University students and the proposals we make for adult learners below, a system of income contingent loans should be available to help with necessary living, travel and learning expenses incurred while in study.

Recommendation 2: All young people up to their 25th birthday should be entitled to free education and training leading to their first Level 3 qualification, enhanced where necessary by a system of income contingent loans for living, study and travel costs.

3.8 Beyond the compulsory school system, we must seek to build a coherent and flexible general and vocational education and training system which is the envy of the world. Our general education system has been highly regarded internationally, but concerns are growing about the greater need for breadth, including mathematics, and the key skills for all young people. Our vocational education system is in need of substantial improvements, building on developments in the apprenticeship system in recent years, again to ensure breadth and transferability of learning, but also to ensure that occupational competence is properly underpinned by knowledge and understanding. We address each of these issues in some detail below.

¹These figures for Level 3 attainment are not based on standard DfEE definitions, they come from a study we have used to provide international comparisons (as used in Figures 2.6a and 2.6b). The definitions of these are contained in Chapter 4, Annex 1 of our companion research report.

Basic skills

3.9 The literacy and numeracy strategies put in place by the government in relation to compulsory schooling seem to us to have recognised both the importance and urgency of ensuring every young person leaves the school system with adequate levels of literacy and numeracy, and we have not therefore seen it as part of our role to produce further proposals. There are however two points which are worth emphasising. First, as has been pointed out by others, the treatment of achievement targets needs to be sophisticated enough not to lead to the neglect of students with the greatest learning problems in favour of those where gains can be made more easily. Secondly, students need to have achievable goals in school if they are to be motivated to succeed, and be able to see real incentives for them to improve. As we have argued already, many students, particularly those not suited to academic learning, will not have that incentive, unless they and their parents know there are high quality vocational options before and after age 16 which will lead to worthwhile employment, and that entry to these depends on good basic skills.

3.10 The problem of basic skills post-16 has been highlighted clearly in Chapter 2, and adults already have an existing entitlement to public funding for basic skills programmes, for which there is a wide choice of provision available. But as we highlighted in Chapter 2, the difficulty of addressing illiteracy and innumeracy is only partly due to a lack of suitable provision. A bigger difficulty is the inability amongst many adults to recognise their skill gaps, and an unwillingness to acknowledge them for fear of embarrassment or even of possible job loss. Persuading adults to work to address any skills gap in these areas often requires an intensive programme of personal diagnosis, encouragement, support and embedding training in other learning activities. We discuss such approaches in more detail in Chapter 4.

Generic skills

3.11 Employment requirements of the key skills are, unfortunately, still not fully appreciated by the education system. The capabilities described in the six key skills are not directly concerned with an individual's detailed knowledge and understanding, or even their mechanical skills, but their ability to apply acquired knowledge and skills in effective ways to achieve their goals. Skills like team working and problem solving can be developed within any subject discipline (e.g. history, science, English) by providing learners with a variety of opportunities to work in teams and solve problems. In the key skills of communication, application of number and IT, employers are not looking for specialist subject knowledge as such, but for recruits who can communicate, and use number and ICT effectively to address real workplace challenges.

3.12 It is this 'application' of capabilities to solve problems or achieve goals that is at the heart of the key skills. The secret to their development lies in the learning methods, processes and experiences through which young people learn, rather than the content of the curriculum. Key skills should not add yet more subjects to an already over-crowded curriculum, they should be developed through the range of methods and techniques used to teach existing curriculum subjects. What teachers therefore need is training in appropriate teaching and learning methods, backed up by specialist teaching materials and guidance on classroom projects and experiences for each curriculum subject which can successfully develop the different key skills.

3.13 Guidance on the development of key skills should also cover the use of school activities and subjects outside the formal curriculum. Sports, citizenship classes, school outings, school plays can all contribute to developing the social and communication skills of our young people. Schools and society as a whole should not be embarrassed or hesitant about the socialisation function of education and school life. This function is valued and promoted in many other countries and seen as contributing both to students' education and training success as well as offering a sound preparation for work and life.

Recommendation 3: New, including in-service, teacher training programmes, supported by high quality learning materials, should be introduced to promote the effective development of the key skills through the national curriculum in schools, in ways that are consistent with raising standards in the basics.

3.14 Post-16 education and training is highly varied, reflecting the more diverse needs of learners. It is inevitable, therefore, that the approach to the teaching and learning of key skills will be more varied. Nevertheless there are a number of common principles. Teachers in further education and trainers employed in the delivery of publicly funded training programmes should have the teaching of key skills as an important part of their continuous professional development programmes. As in the case of pre-16 learning, there needs to be a programme of research and development which will provide high quality learning support materials for teachers together with guidance on effective teaching practices.

3.15 There is also a clear need for more work to incorporate the key skills within all foundation learning qualifications as we recommended in our Second Report. This is especially true of the large number of vocational qualifications outside the NVQ framework. Further education and training providers should have an explicit policy setting out how students can acquire key skills through the programmes they offer, including the integration of formal instruction with extra curricular activities and learning by doing.

3.16 Within the key skills, IT is an area of central importance. Good progress is being made in developing the teaching of IT skills in schools and it is often a subject in which many young people are generally interested. However, as the evidence from employers' identified skills gaps in Chapter 2 showed, the general IT awareness and competence of many adults is significantly less well developed and represents a major skills gap.

3.17 Progress is being made in opening up opportunities for adults to acquire basic competence so that they can be effective users of the technology. Much of this progress is connected with the setting up of Ufi and the creation of a new network of government funded IT learning centres and hubs across the country. Important work which remains however is to ensure that we have good quality instructors to support these opportunities, including recurrent funding to support them, and that the present confusing array of IT qualifications is rationalised and based on clear standards.

Recommendation 4: Priority should be given to funding the training and development of a cadre of highly capable IT trainers for the new IT learning centres, to widen adult access to a simplified range of certificated general IT and e-commerce learning programmes.

Mathematics within broader foundation learning

3.18 The pace of occupational change and the growing demand for flexibility argue for a broadly based foundation learning system, from which both specialisation and adaptability are possible. In Chapter 2, we highlighted the UK's extraordinary shortfall in mathematics which is posing particular challenges for the availability of skills in the engineering, IT and finance sectors to name but three. In our view, all foundation learning to Level 3 must be broadly based, ensuring that young people, irrespective of the route they choose, pursue a programme of learning which provides a further development of the key skills, breadth in subject coverage, and sufficient depth in their chosen fields of academic or vocational specialism to provide a sound foundation for work and further learning.

3.19 Those young people who choose the academic track after age 16 should, in addition to the key skills, study a broader range of five to six subjects, to include English, mathematics, and a foreign language. A baccalaureate style qualification provides an excellent example of such a broader based qualification offering a sound mix of both breadth and depth, and a better preparation for both further study and working life.

3.20 We accept that it is not possible to move to a baccalaureate qualification immediately. What is needed is a programme of work to pave the way for a progressive shift in the qualifications structure. This should include the welcome steps being taken by government to encourage broader study post-16, the promotion of a 'Use of Maths' qualification for those not inclined to study A or AS level maths, working with the universities to encourage them to use their entrance requirements supportively and encouraging schools and students to consider existing baccalaureate qualifications as an alternative to A levels.

Recommendation 5: Government should encourage all young people pursuing a non-vocational route post-16 to study a broader range of subjects, including English and maths, and support the progressive introduction of a baccalaureate style qualification for Level 3 by 2006.

3.21 Providing opportunities for all Level 3 students in mathematics will be a significant challenge. One of the reasons why we do not have enough good mathematics teachers is that they themselves are products of an education system which did not encourage study of the subject. To break out of this self reinforcing situation will not be easy. In the short to medium term, the government should invest in a programme of financial incentives for mathematics teachers combined with conversion courses for individuals who have the required aptitude in mathematics and could become good teachers with training. Consideration should also be given to offering similar incentives to under-employed mathematics lecturers in further and higher education institutions to convert to school mathematics teachers.

Improving intermediate level skills

3.22 Young people who choose the vocational route currently have the options of full-time or part-time vocational study in further education, or high quality apprenticeship training. In vocational study, available choices include general courses which cover a group of occupations or an industrial area, as is the case with the present GNVQs, or more focused qualifications which attest to knowledge and understanding in a particular occupational field, such as the existing BTEC and Edexcel qualifications. We made detailed proposals in our Second Report to bring such institutionally based qualifications more into line with the National Occupational Standards (through what we described as Related Vocational Qualifications), and rationalise the number of competence based NVQs. We welcome the fact that this work is now underway. Such programmes of study should also include the six key skills to an appropriate level so as to aid the transferability of learning between industries and employers.

3.23 A national apprenticeship system should offer foundation entry from Level 2 and full progression opportunities to modern and graduate apprenticeships from Level 3 to Level 4 or even 5, depending on industry or occupation. Foundation apprenticeships should be available for young people not ready, at the end of compulsory education, to embark immediately on training leading to a Level 3 qualification and who, instead, need to start at Level 2. Advanced apprenticeships should deliver a minimum Level 3 qualification and be available for direct entry after the end of compulsory schooling or a period of further education, as well as offering progression from a foundation apprenticeship.

3.24 Modern Apprenticeships should offer a sound mix of breadth and depth, and we remain committed to our proposals in the Second Report to provide for the separate assessment of underpinning knowledge and understanding through related vocational qualifications where appropriate, together with options for some general education, within publicly funded apprenticeships. Such proposals will increase the transferability of acquired skills, and maximise progression opportunities for apprentices into further vocational or academic learning as desired.

Recommendation 6: Apprenticeship programmes at Levels 2, 3 and 4 should be available to all who want them and include key skills, assessed knowledge and understanding, and options for general education, so as to maximise transferability of skills and progression opportunities.

3.25 Further education colleges are an important part of post-16 education and training system and we must use them to the full in building up the vocational route. The reformed system of 'related' vocational qualifications should allow institutional providers to deliver vocational courses which are more directly complementary to apprenticeship training. But to deliver such courses effectively, they need the necessary equipment and facilities and good instructors. We should aim to create a system in which colleges become centres of excellence in particular vocational fields.

3.26 Other improvements concern the quality of provision which trainees receive. We recommended in our Second Report that all those delivering instruction to apprentices, whether college lecturers or staff in other private, public or voluntary training providers, should be appropriately qualified by 2004. In addition, all such staff should have access to good opportunities for continuous professional development in their specialist fields, including training in how to work effectively with employers. Small firms have particular difficulties in delivering the diverse range of learning needed by apprentices yet are an important source of apprenticeship places. They should be encouraged to develop and share training resources with other small firms through group training associations, which would also allow greater scope for job rotation during the apprenticeship period.

3.27 The new Foundation Degree, announced by the government and developed from a proposal in our Second Report, is fundamental to raising the status of the vocational route. These degrees should be able to be acquired through either 2 years of full-time study or the part-time equivalent. In our view, much of the demand for this qualification will come from young people in their early years of work, or older workers seeking to upgrade their skills, and the qualification should therefore be designed on the assumption that part-time study whilst in work would be common, if not the norm. For full-time students, foundation degrees should involve a significant period of relevant work experience linked to formal study.

3.28 Students must believe that the Foundation Degree will give them access to technical and associate professional level jobs, and programmes should therefore be linked wherever possible to National Occupational Standards and to opportunities to pursue Level 4 apprenticeships by additional competence assessment for relevant NVQs. Progression to a full honours degree through further study should be available for those who desire it, and there should be considerable commonality in the curriculum and qualifications provided by different institutions to maximise access, portability and progression opportunities.

Recommendation 7: The new Foundation Degree should be designed as a flexible vocational programme, linked to National Occupational Standards, for part-time or full-time study including significant work experience, and offer progression by further study to an honours degree for those who desire it.

Developing specialist skills for the e-economy

3.29 We are concerned here with the specialist skills needed by individuals working in the broad information and communications technology (ICT) sector, as well as those in technical ICT occupations across other sectors. Employers reported that 35% of all skills shortages lay in this area, and this shortage is likely to increase with the growth of dot.com enterprises, and as more and more businesses seek technical help to transform their businesses to meet the opportunities of e-commerce. General ICT skills required by the broader workforce were included in the key/generic skills section (paras. 3.11 to 3.17) above.

3.30 Our detailed analysis and recommendations for the ICT industries were published in the separate report entitled "*Skills for the Information Age*" by our sectoral sub-group, and so are not repeated here. As noted in Chapter 2, the issue in relation to the availability of specialist ICT skills is not primarily one of the volume of available provision. The image of the industry, and jobs within it, is poor, and much of what needs to be done is concerned with stimulating demand through the education system and particularly amongst women. We cover this in more detail in the next Chapter.

3.31 However, our sub-group report also highlighted that the current system of ICT qualifications was complex and confusing. In particular, there are over 800 qualifications below degree level in IT end user skills, generally unrelated either to any occupational or qualification framework, and thus confusing both employers and potential recruits. Whilst stimulating interest in ICT specialist skills is essential, so too is simplifying and improving the current qualifications framework so that it is easily understood and clearly relates to employer needs and occupational opportunities.

Recommendation 8: The relevant ICT industry National Training Organisations should work with the Qualifications and Curriculum Authority to review the occupational framework for the industry, and then reduce the number of ICT qualifications below degree level to more closely match that framework.

Upgrading the skills of adults

3.32 We highlighted in Chapter 2 that almost one third of the UK adult workforce has no Level 2 qualification, and many of these are also the one in five adults who are functionally illiterate and/or innumerate. This is a national crisis which has substantial economic and social implications for the future of the UK. Adults who have missed out on foundation learning opportunities and have only low or no qualifications must now be encouraged and supported to acquire skills and qualifications wherever possible.

3.33 Whilst in the longer term we believe this will justify an entitlement for publicly funded education and training for all adults up to their first Level 3, our first priority must be to bring the one third of the workforce without a Level 2 qualification up to that level. This entitlement must of course also include with it a continued entitlement to free tuition in basic skills for the 20% who require this. These opportunities for 'second chance' education should be further supported by a system of income contingent loans to help with living, travel and learning expenses (e.g. books, computers etc.) incurred while in study. We describe in Chapter 4 the additional steps that will need to be taken with employers, trade unions and providers to stimulate demand and support participation amongst this group, without which these entitlements and loans will not succeed.

Recommendation 9: All adults should be entitled to free education and training, including basic skills, to attain their first Level 2 qualification, enhanced where necessary by a system of income contingent loans for living, study and travel costs.

3.34 As highlighted in Chapter 2, providing an entitlement, important though that is, will not get us very far on its own. All adults who wish to maintain their continuing employability will need to raise or renew their existing skills on a number of occasions throughout their working life. We need to encourage greater demand for learning from individuals and to provide sufficient relevant and accessible learning opportunities to meet that demand. Given the significance of the workplace as a place of learning, it is also important to develop new ways of engaging and supporting employers in making relevant learning opportunities available to their workforce. We describe approaches for stimulating individual motivation for learning and greater employer engagement in Chapter 4.

3.35 Employers also have a key role to play within the infrastructure of the learning system through National Training Organisations (NTOs). In both our Second and Third Reports, we spelt out substantial roles for the network of NTOs to secure increased participation and higher attainment amongst employees in their sectors. The work over the last two years to rationalise the number of NTOs and raise their capacity has been very welcome, but we do not believe it has gone far enough. There are still, in our view, too many NTOs leading to confusion for employers, and to organisations that are in some cases still too small to undertake the full range of responsibilities we believe is necessary. Employers and government need to reiterate their mutual commitment to making the NTOs a central part of the national education and training system, and review the capacity and funding of NTOs to ensure they are equipped to meet the challenges of the next decade.

Recommendation 10: Government should work with employers to further review the functions, capacity and funding of NTOs to ensure they are able to secure increased participation and attainment in learning within their sectors.

Unemployed people and lowering recruitment difficulties

3.36 Lowering unemployment further and keeping it low partly depends on our ability to avoid the skill shortages and more general recruitment difficulties which choke off growth and fuel inflation. In addition, increasing recognition needs to be given to the value of re-skilling rather than just upskilling for those whose current skills may have been superceded by industrial change or new forms of work organisation. The nature of occupational change is such that many individuals will need directing into substantially new career paths if they are to maintain their continuing employability. This requires labour market programmes and policies for the unemployed to focus on:

- improving the matching of job seekers to vacancies;
- ensuring that unemployed people have the employability skills needed to compete in the labour market;
- re-skilling individuals for new occupations and career paths, as well as upskilling, in order to maximise employment opportunities; and
- encouraging individuals to be more geographically mobile in seeking work.

3.37 In our first report we put forward a number of proposals, including more effective collaboration between the Employment Service, employees and private recruitment agencies to deal with local recruitment difficulties, encouraging employers to recruit more widely and to help with transport, and to provide more opportunities for unemployed people to take short training courses.

3.38 The government has recognised the problem we identified of local areas with relatively high levels of unemployment existing close to areas with more buoyant labour markets. Also, welcome steps are being taken to improve job matching through the use of new technology and call centres in the Employment Service and the increased emphasis on employability skills in the New Deal. In addition, we look forward to the roll out of the new training programme in IT and basic skills for unemployed people.

3.39 However, more work is needed to develop a comprehensive strategy for encouraging mobility. This should include basic measures such as ensuring that Employment Service vacancies in more buoyant labour markets are advertised in high unemployment areas which may be reasonably close and linking this with dedicated transport provided in collaboration with employers. There is also scope to strengthen collaboration between agencies at the local level concerned with recruitment. This should involve looking at the Employment Service Annual Performance Agreement to see whether it works against the sharing of information at the local level and looking to build on the work of the employer coalitions supporting the New Deal.

3.40 Finally, it is clear that one of the ways employment growth has been sustained is through attracting people formerly outside the labour force into jobs. There is still a relatively large pool of economically inactive people of working age. The new single work-focused gateway should assist in bringing more of those who are on benefit back into the labour force. However, the government should consider what additional measures might be needed.

Recommendation 11: Unemployed adults should have greater access to employability skills training, and this should be combined with measures to enhance geographical mobility and to promote entry of economically inactive adults into the labour force.

Equal opportunities

3.41 As we highlighted in Chapter 2, our education and training system should, but does not always, offer equity of opportunity irrespective of ethnicity, gender, or disability - and we have already highlighted issues relating to age in the workforce elsewhere.

3.42 It will be essential that the Learning and Skills Council works with other relevant agencies to ensure that education and training provision does not discriminate against learners on the basis of race, gender, age or disability, but this alone will not be sufficient. Systems must be put in place to ensure inequalities in participation and attainment, and their possible causes, are continuously monitored, and proactive steps are taken to overcome these and to seek to increase participation amongst and attainment by excluded groups. Whilst we believe that the Learning and Skills Council should have the lead responsibility for this work, other groups with whom they should work closely include the National Training Organisations, the qualifications and provider networks, and the various specialist voluntary groups and charities which represent and support disadvantaged groups across society.

Recommendation 12: The Learning and Skills Council should establish an effective and comprehensive equal opportunities monitoring system, and put in place proactive programmes as necessary to reduce inequities in participation and/or attainment by groups demonstrably disadvantaged by ethnicity, gender, age or disability.

Conclusion

3.43 To summarise, the key elements of our proposed changes to the education and training system (the 'supply' side) include: more effective delivery of key skills through the education system; a broad curriculum at upper secondary level which promotes the wider study of mathematics; an entitlement for all young people up to 25 to achieve their first Level 3 qualification; a high quality vocational route delivered through both further education and work-based training with clear ladders of progression to higher education; flexible opportunities for developing IT skills backed by clear standards and qualifications; a system backed by an entitlement which allows adults who have missed out on learning to upgrade their skills; a strengthening of the NTO network; better support for mobility amongst unemployed people coupled with encouragement for more economically inactive people to return to work; and measures to ensure equality of opportunity across all sections of society.

3.44 The changes to our education and training system and employment policies which we set out above are ambitious, but no more than is necessary to tackle what in many cases are long standing skills gaps. Viewing them as a whole rather than in piecemeal fashion is important; it should give a sense of strategy to policy development rather than the impression of isolated and sometimes opportunistic initiatives. In order to take advantage of these improvements in the education and training system, more needs to be done to stimulate demand for learning, and to manage the system to ensure a better match between demand and supply. We turn to these issues in Chapter 4, and finally set out our proposed targets and priorities in Chapter 5.

CHAPTER 4

STIMULATING DEMAND AND MANAGING THE SYSTEM

Introduction

- 4.1 We highlighted in Chapter 2 that skills shortages and gaps arise from a range of complex mismatches between employer need, individual demand and education and training supply. In particular, we identified the large number of low skilled adults including managers and proprietors, many of whom are illiterate or innumerate; the reduced access to training of those with low or no qualifications, exacerbated by their lesser willingness to learn; and the lower levels of training available in smaller firms which have little access to internal personnel and training support.
- 4.2 In the previous Chapter, we set out our strategy for changes to the infrastructure of the education and training system that will help ensure that the range and levels of provision, and the qualification infrastructure, are better matched to the priority employment and skills needs in the medium term. These changes will only be effective in reducing skills shortages and gaps, and better equipping individuals for future employability, if the demand for and access to learning for adults is substantially increased, if learner demand and employment needs are better aligned, and if provision responds effectively to that demand. In this Chapter, we set out our proposals for achieving these improvements.
- 4.3 Identifying employment requirements, stimulating relevant demand, matching supply to demand, and monitoring performance over time are all essential and continuous elements of the effective management of the post-16 education and training system. The rate of economic and employment change is rapid, and is likely to increase. We must monitor trends in industrial and occupational change, assess their potential impact on skills requirements, and stimulate the appropriate adjustment of provision in a timely manner. This cannot be an accurate science, and we are not advocating a return to rigid and outdated manpower planning. We do, however, believe that it is possible, through informed processes of analysis and adaptation, to create a more responsive education and training system that will enable us to achieve a closer match between employment needs and skills supply, and thus reduce skills shortages and gaps, over time. Having said that, no system, however well planned and managed, will always be able to avoid unanticipated skills shortages in cases of major industrial or structural change, and it will be essential to have available mechanisms for addressing such situations as they occur.

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4.4 Effective system management will require six main elements:

- an integrated and coherent labour market and learning information system to inform learner choice and guide system management;
- successful promotion of a greater and more informed demand for learning, from both young people and adults;
- strengthened commitment from employers and managers to promote learning, and encourage and support their employees to raise their skill levels and maintain their employability;
- an effective planning, funding and management regime, which ensures that funding, performance monitoring, and quality assurance work together to ensure a balanced general and vocational post-16 system, and stimulate responsive supply;
- targeted action to address unanticipated sectoral or occupational skills shortages as these occur;
- co-ordinated and integrated action by all the key organisations to deliver agreed priorities and targets.

4.5 We discuss the first four of these elements in this Chapter. At the heart of this process will be the role of the Learning and Skills Council, a welcome response by the Government to our proposal in the Second Report that the separate funding and learning management arrangements through TECs and the Further Education Funding Council should be integrated into a single structure. Other organisations will also have key roles to play, including Regional Development Agencies, National Training Organisations, Careers Guidance Providers, the Small Business Service, and employers, as well as individual learners themselves. However, the extent to which the work of these different stakeholders can be co-ordinated around clear and agreed priorities and targets will be critical to the success of the National Skills Agenda, and their different roles and responsibilities will be discussed in more detail in Chapter 5.

A Comprehensive information base

4.6 At the heart of informed learner demand, provider responsiveness and improved system management lies labour market information. Without such information, individuals cannot be expected to make sound decisions on possible career paths and relevant learning opportunities; careers guidance organisations cannot provide wise and impartial support without understanding the trends in industrial and occupational change; and providers cannot be expected to offer the most appropriate and responsive mix of learning opportunities. It would be unrealistic to expect the Learning and Skills Council(s) to improve the match between supply and demand without an understanding of what they should be aiming for, and sufficient supply side data to check their performance. In the absence of such information currently, it is hardly surprising that skills shortages and gaps in the UK have often reached levels that generate significant concern.

4.7 It is right that the Learning and Skills Council should have the lead role in taking forward much of the strategy at the practical level. However, it would not be right for the Department for Education and Employment to fully devolve its responsibility for policy or for providing leadership to the Council. Only the Department has the capacity to ensure that different agencies work together effectively, and that common standards and definitions are used in research and survey work. It is also important that the Department retains some capacity independent of the LSC for research and analysis. We therefore support the decision of the Secretary of State to retain a Skills Unit within the Department.

4.8 There is a need for clarity and coherence between the different responsibilities of the Department and the Learning and Skills Council. In our view, the Learning and Skills Council should be responsible, working with other partners, for commissioning a rolling programme of research and survey work to analyse and update the national information base on skills and skill needs. It should draw on an expanded Labour Force Survey (as recommended in our Second Report) and other information including that provided by local Learning and Skills Councils, regional data from Regional Development Agencies, and sectoral data from National Training Organisations, to produce an annual skills assessment as outlined in the Learning to Succeed White Paper. This assessment should build on the format and methodologies which we have developed in producing our companion research report, and which represents a considerable advance on previous work.

4.9 The DfEE should retain the capacity to provide independent advice to Ministers through its Skills Unit. It should also take the lead, working with the Learning and Skills Council and other agencies, in developing and ensuring the use of common standards and methodologies in research and survey work. Further, it should take responsibility for ensuring that the roles and responsibilities of different agencies in the collection and analysis of labour market and skills information are clearly defined, well understood and consistently followed.

Recommendation 13: Government should establish a national system for collecting and disseminating information on labour market and skill needs which is led at the strategic level by the DfEE and at the operational level by the Learning and Skills Council.

Stimulating informed demand for learning

4.10 The seemingly simple phrase 'stimulating informed demand' in fact describes a complex process involving four distinct components. Individuals must be able to access information, in a digestible form, on future job and career opportunities and relevant learning provision; they need access to advice and guidance to help them interpret that information, and understand how it relates to their individual situation; they need to be convinced that learning will bring them benefits commensurate with the time and effort required; and, we know from research described in Chapter 2, they require substantial persuasion if they are to become engaged with and succeed through learning.

Information, advice and guidance for learners of all ages

4.11 We must ensure all individuals can get access to the information they need to make sound learning choices that will equip them well for the jobs they seek. We are pleased that the Government has taken forward our ideas for a website of jobs, education and training information in the Learning and Workbank project, to make much of the information described in the previous section available to learners in an easily digestible form over the Internet. For its success, it will be essential to ensure that it is updated and maintained on a regular basis, and that careers advisers, and careers teachers in schools, are provided with training in how to use and interpret information from the Learning and Workbank system and to tailor it to the needs of young people.

4.12 For many people seeking to make career and learning choices, information alone will simply not be enough. The pace of change is accelerating, and the complex impact it has on many industries and jobs can be bewildering. Research and studies over the last ten years have not only highlighted the continuing importance of objective careers advice and guidance to young people, they have confirmed a similar need for many adults who need or desire to change careers. High quality and impartial advice helps individuals, young and old, better understand the nature of their local labour market (and wider labour markets where relevant); what that can mean for job prospects; what skills are needed to pursue such work; and how to attain them. By helping to guide choice, careers services make an essential contribution to helping individuals find interesting and rewarding employment, thus enhancing their employability, earning capacity and quality of life.

4.13 The learning choices young people make in school at ages 13 to 14 can significantly shape the career choices available to them later. We must therefore start to inform choice early. Young people should receive structured careers education and project based preparation for the labour market from Year 7 (age 12) onwards. From Year 9, when we recommended in Chapter 3 that all schools should introduce quality academic and vocational options for all young people, work experience and careers guidance should focus on helping young people to begin to identify potential career choices. It is also essential that such provision seeks to inform parents, too, as they have such an influential role on their children's decisions.

Recommendation 14: Early careers advice and education should be provided for all young people which gives them a greater understanding of real jobs and their requirements in terms of skills.

4.14 In our response to their Consultation, we gave a broad welcome to Government plans for all the new integrated youth support service *Connexions*, but would offer a caution. It is essential to recognise that virtually all young people, not merely the minority of significantly disadvantaged individuals, need access to impartial careers advice and guidance, and the overall level of guidance available to the majority must not be reduced by this welcome additional focus on those in need.

4.15 In a rapidly changing labour market, adults also require access to similar advice, guidance and support and this is particularly true for the key target group of low skilled adults, many of whom may not have participated in learning for ten years or more. They too need high quality advice and guidance services, free at the point of use, of which the Learning and Workbank forms only one component. A wide variety of projects over the last ten years have confirmed that personal and often quite intensive individual advice and guidance is an essential element of successful attempts to re-engage disaffected adults back into learning.

Recommendation 15: The Learning and Skills Council must have responsibility for the provision of high quality careers information, advice and guidance for adults which includes up to date information on employment prospects in different occupations and industries.

4.16 Informed choice for individuals in career and learning options should be matched by informed choice of learning institution. Learners should therefore also be able to obtain information about the comparative success people have in finding relevant jobs after studying different courses in different institutions. The Learning and Skills Council should require publication of timely, accurate and complete information on success rates and destinations by all learning providers as a condition of public funding.

Marketing the benefits of learning

4.17 As we have highlighted in Chapter 2, a disturbing number of adults appear to be disinterested in further learning or cannot see its relevance to them. If we are to achieve the step increase in skills amongst adults which we need, we must find ways of reaching this group, changing their attitudes and overcoming their inertia. This will require more than simple advocacy or promotion of learning, it will require convincing adults, individually in the most extreme cases, of the real benefits of learning, and demonstrating how they personally can make learning work for them. The National Skills Agenda must incorporate a systematic and sustained 'marketing' (in the broadest sense of that word) campaign to stimulate a greater desire and willingness for learning amongst adults, and a stronger sense of shared responsibility amongst adults for their continuing development and employability.

4.18 'Marketing' is too often interpreted as simple advertising or advocacy, and we are convinced that such a narrow approach in this case would fail. We believe an effective national marketing campaign is essential to instil a culture of lifelong learning and it will need to incorporate a broad range of elements, each coherent with the other, and be co-ordinated effectively over a number of years. The elements of such a campaign are likely to include the following, though establishing such a campaign should be based upon more comprehensive market research than has been possible for us:

- Promotion and advocacy would form a key part of such a programme and, at the national level, should bring together the present Campaign for Learning, the promotional work of Ufi, and the work of the new Learning and Skills Council, in conjunction with broadcasters and the wider media;
- Approaches to promotion which take positive messages about learning into those environments (pubs, clubs, discos, etc.), or transmit them through media programming (soaps, chat shows, sports programmes etc.), which are most relevant for those adults disengaged from learning;
- Ensure the availability of strong evidence of the personal economic returns from learning, backed by case studies of success and personal advancement, which can then become the subject of positive media programmes and stories, and national award schemes;
- Champions, exemplars and mentors will be essential to create a persuasive public environment in which individuals can positively associate those they admire with encouragement for learning;
- Large employer programmes along the lines of the Ford EDAP scheme¹, in which trade unions and employers collaborate to persuade all workers of the benefits of, and to participate in, personal learning programmes as a first step to increasing motivation and confidence;

¹ Ford Employee Development Assisted Programme scheme

- Local or sectoral collaborative programmes, including supply chain arrangements, which make the benefits of large company EDAP schemes available to smaller firms by resource sharing (also see following section);
- Building on the success of trade union initiatives such as Unison's 'Return to Learn' programme, projects funded through the Union Learning Fund, and further encouraging the Bargaining for Skills approach developed by TECs with the TUC, to communicate the value of learning to workers from respected colleagues and co-workers.

4.19 Experience over the last ten years has confirmed that the most effective mechanisms for reaching adults disaffected from learning are those that target individuals as close to the workplace as possible, and with messages and support from those they most trust and respect - their own colleagues and supportive managers. Even how learning and its value is described to adults can have a profound effect on their reaction to it. Positioning learning as something that is essential for job progression can lead low skilled employees to refuse to participate for fear that failing will lead to dismissal. Learning has to be offered in a way that is perceived as non-threatening and genuinely beneficial, and for those adults disengaged from learning for many years, in bite-size chunks and supportive environments which almost ensure initial success so as to secure confidence and continuing commitment.

4.20 There can be particular difficulties in persuading adults to admit to the existence of basic skills weaknesses, because of the perceived social stigma associated with illiteracy and innumeracy, and the fear that such an admission in a work context could lead to early job downgrading or loss. Adults lacking basic literacy and numeracy have often developed quite sophisticated working strategies to avoid detection and/or admission, and can be highly resistant to signing up for basic skills remedial programmes. Successful engagement often requires concealing the basic skills elements of such programmes within other developmental activities e.g. through computer based training programmes presented as IT skills, or within presentation skills programmes as part of the introduction of team working practices.

4.21 In our view, such a sustained and sophisticated 'marketing' programme to stimulate greater demand for, and successful participation in, learning amongst low skilled adults would involve a wide range of techniques and materials, and an extensive group of organisations, and thus require effective co-ordination. Given its overall remit for post-16 skills, we believe the Learning and Skills Council, nationally and locally, should lead such an initiative and that it should form one of the Council's prime responsibilities from the date of its establishment. As a part of this programme, each local Learning and Skills Council should produce a local workforce development strategy incorporating many of the approaches outlined above designed to succeed in the context of its local labour market.

Recommendation 16: The Learning and Skills Council should establish a major and sustained national marketing programme, coordinated with other relevant bodies such as Ufi, to substantially increase adult demand for, and successful participation in, basic skills and work related learning, with a primary focus on the one third of the workforce without a Level 2 qualification.

Increasing employer commitment to workforce development

4.22 Employer commitment and support are essential if we are to succeed in the goals described in this report. Employers benefit directly from a more highly skilled workforce, through greater productivity and competitiveness, and indirectly, through access to a more skilled wider labour market to support growth, and reduced public expenditure on social security and benefits. They also fund the largest proportion of work-related learning for adults, and can significantly shape an individual's desire and willingness for, and access to, learning for job progression and future employability.

4.23 We highlighted in Chapter 2 the evidence from our Third Report which suggested that aggregate levels of employer provided training were comparable or better than most of our European counterparts, but that there were three major groups who were not participating on an equitable basis in continuing education and training: lower skilled and unskilled workers; flexible workers, particularly part-time and some temporary workers; and those working in smaller businesses. We also drew attention to the disturbingly high proportion (almost one third) of owner/managers and proprietors who had no or low qualifications. In this section, we offer a number of recommendations which we believe will help to increase employer commitment and support for developing the skills of their workforce, and particularly address the difficulties posed for smaller businesses and those owner/managers and proprietors who themselves fall within our priority target group.

Employer learning networks

4.24 Projects like the Ford EDAP programme have confirmed the essential role that the workplace can and must play in encouraging adults who have missed out on learning earlier in life to recognise the real value of, and participate successfully in, learning and work-related training. The best employers, particularly larger organisations, do provide excellent opportunities for learning but others, particularly smaller firms, lack the capability and sometimes the motivation. As we pointed out in Chapter 2, for many smaller firms, this is a result of having no internal capability in personnel or training, and no understanding of how to arrange and manage relevant training for their staff. Our response must be to create stronger incentives for such businesses and to enhance their capability to deliver learning to or for their staff.

4.25 What is needed is a genuine 'university for industry' built on groups of businesses coming together in local 'learning networks', established either through geographical clusters around business parks and industrial estates, or through sectoral or supply chain clusters. Such networks can work through local learning centres which deliver learning in manageable units, through new technology where appropriate, and, wherever possible, to recognised national standards. One of the initial programmes offered through such networks should focus on owner/managers and proprietors themselves, so that they can in turn act as advocates and mentors for their own staff.

4.26 The National Training Organisations for each industry sector and the Local Learning and Skills Councils should set targets for small firm involvement in these learning networks and the volume and quality of the learning done through them. Regular reviews of progress against these targets should form part of the annual audit of workplace learning we described in our third report.

Recommendation 17: The Learning and Skills Council, working with NTOs and the Ufi, should establish a national framework of local and sectoral 'employer learning networks', associated with *learndirect* learning centres, to meet targets for both small business involvement and adult employee participation and attainment.

'New' work practices and learning

4.27 The challenge to survive in a global market place has caused many firms over the last fifteen years to adopt a range of work organisation and management practices which enable them to maintain or increase competitiveness and improve workforce productivity. Technology has often formed a key component of such change. Formal and informal team working, just-in-time production, total quality management, and other flexible working practices are just some of these, which typically devolve greater responsibility for decision making and process control to shop floor and customer facing workers.

4.28 We described in the Third Report the findings of research which confirmed the correlation between such high employee involvement work practices and the level and growth of skills in companies. In particular, the use of quality models such as the Business Excellence Model, quality circles, team working, appraisal systems, working towards Investors in People and better internal information systems were all strongly linked to the formation of new work-specific skills as well as transferable skills such as problem solving and communication.

4.29 While more firms are adopting these 'new' working practices, as is so often the case, small firms are either less likely or less able to take them up. Yet their potential to benefit from such approaches is as great or greater than for larger firms. The 'win-win' of small businesses adopting practices which both enhance their competitiveness and increase workforce learning is an opportunity which should be seized by the new Small Business Service.

Recommendation 18: The Small Business Service should encourage and promote best practice in management and the organisation of work to small firms, including the training of key managers in such firms in relevant management techniques and learning methods.

Incentivising investment in workforce development

4.30 Investors in People has become widely recognised as a national standard for good practice, linking workforce training and development to the achievement of business goals. One third of all employees in the UK now work in organisations that have achieved or are committed to the standard, but there is a significant challenge to be faced in promoting the standard amongst smaller firms. Only 11% of firms in England employing between 10 and 49 people are covered by the standard (with 4% having achieved it and a further 7% having committed) compared to 41% of those employing 50 to 199 (of which 20% have achieved the standard) and 83% of those employing 200 or more people (of which 45% have achieved it.)

4.31 Investors in People UK have undertaken some encouraging projects on how to increase take-up amongst smaller firms, but the take-up amongst small firms is still so low, and the potential benefits to both the firms and their employees sufficiently great, that we feel stronger measures are justified to get them involved. We think an effective way of persuading small businesses to pursue the standard would be to offer either a tax credit or a reduction in the small firms rate of corporation tax to firms employing less than 50 people which achieve Investors in People. Our calculations in the Third Report suggest that a cut of 2% in the 20% rate for firms with less than 50 employees would provide £500 to recognised firms at a cost around £60 million if 30% of such firms took it up. This would mean that an additional 1.4 million workers would be covered by the standard at a cost per employee of around £42.

Recommendation 19: A tax credit or reduction in the small firm rate of corporation tax should be provided for firms with fewer than 50 employees that achieve the Investors in People standard.

Planning, funding and managing the system

4.32 If the labour market and the education and training system were true markets, then there would be an argument for putting informed demand and learning entitlements in place and then allowing the market to work. However, the complexities of a publicly accountable system for funding, quality and performance management can themselves undermine the operation of the system as a true market, and lead to some perverse outcomes. It was to address some of that potential that the Task Force recommended the integration of the Further Education and Training and Enterprise Council budgets. The rapid pace of change coupled with public funding rules can also make it difficult for learning institutions to respond sufficiently quickly to labour market pressures. Light touch mechanisms for planning, funding, monitoring and managing the post-16 education and training system can help to make the market work more effectively but also provide early warning of the need for adjustment as employer skills requirements change over time.

The role of planning

4.33 The mixture of making the market work and indicative planning which we advocate is consistent with the view we took in our First Report. We have heard nothing since then which convinces us that detailed manpower planning would work. It is impractical, if not impossible, to forecast skill needs sufficiently accurately and at the required level of detail for a full manpower planning approach; and to limit student choice by setting quotas for particular courses would be demotivating and counter productive.

4.34 There can, however, be a stronger focus on meeting future skill needs through indicative planning of post-16 education and training. The aim of such an approach would be to keep a check on the potential for the funding regime, provider marketing or performance indicators (amongst other levers) to distort or thwart individual choice or to fail to promote the advantages of learning the skills that are likely to be in future demand.

4.35 The market in publicly funded education and training has an inevitable tendency to be dominated by the decisions of providers, i.e. the supply side. No practical tariff system can hope to cover all the variations in inherent costs between courses and between providers. Thus there will always be some cases where incentives exist to provide one course rather than another because the former offers a greater net gain from the public funding system. Further, the advice and guidance provided by institutions and the sheer availability of courses is a powerful influence on the choices of potential students.

4.36 This is why the planning and monitoring system must include the capacity for diagnostic checks on the influence of such supply side levers. It should be capable of identifying cases where the balance between different types of courses may have been distorted by the interests of providers or other supply side influences rather than the preferences of learners and the needs of employers. Such checks are likely to operate at the level of the local labour market, and thus the local Learning and Skills Council sub-region, rather than the individual institution.

4.37 The solution lies in a strong system of indicative planning, with sub-regional targets set for enrolments by main subject or occupational field. Local Learning and Skills Councils should set out indicative expectations of the broad mix of skills required for the sub-region, and set overall priorities for provision growth and contraction. These should be derived from the information system described at the beginning of this Chapter, and informed by institutional expectations. Targets should reflect expected labour market changes, showing for example how planned provision for the sub-region over time would reflect the growth and decline of particular sectors and occupations. Learning and Skills Councils would then negotiate and agree individual institutional plans so that they are broadly in line with targeted provision, and monitor implementation through coherent management information aggregated from individual provider returns.

4.38 Finally, there would be corrective mechanisms built in to the system. Providers should be required to provide and publish information on the match between learner applications and the pattern of provision actually delivered, and between subjects studied and jobs obtained. Alongside the indicative targets set at the sub-regional and institutional levels, this information would allow for a powerful series of cross-checks. The relationship between student choice and the needs of the labour market would indicate the effectiveness of the system which informs and guides learners about skills in demand; the relationship between student choice and actual enrolments would provide an indication of system responsiveness; both taken together would allow the Learning and Skills Council to utilise funding or other levers to encourage the following years provision to converge more closely with demand.

Recommendation 20: The Learning and Skills Council should establish a planning system for publicly funded education and training which can identify major discrepancies between provision and the needs of individuals, employers and the labour market.

Ensuring a level funding playing field

4.39 The new Learning and Skills Council will have a budget of over £6 billion. The systems and formulas used to dispense this money to education and training institutions could have a huge effect on the pattern of education and training opportunities provided. Evidence from the operation of existing systems suggests that institutions are very responsive to the sometimes unintended incentives and disincentives which these systems have created.

4.40 Generally, the funding regime operated by the Learning and Skills Council should aim to be as neutral as possible between different levels and subjects of courses and learning programmes, as well as between learning routes. It should aim to avoid creating distorting financial incentives for institutions to lay on one course rather than another; or for encouraging employers or learners to make learning choices that are not driven by pressures other than skills need and personal choice. This means allowing funding to follow the learner and aligning unit levels of funding as closely as possible with the inherent costs of different types of provision.

4.41 This is fully consistent with allowing some local variations in unit levels of funding to reflect geographical differences in long run costs, to compensate individual institutions for the short run costs involved in setting up and marketing new courses, or to incentivise a significant shift in sub-regional provision to address urgent skill needs or imbalances.

4.42 The creation of a unified budget for post-16 education and training outside higher education is welcome. It is not enough on its own however to ensure that funding follows the learner. One important requirement is that the funding which institutions receive should depend directly on the numbers of students they are able to attract. There may need to be some protection for institutions against sharp and potentially disruptive fluctuations in funding. But it is important that this protection is not so great as to effectively undermine the link with success in attracting students.

Recommendation 21: The Learning and Skills Council's funding regime system for post-16 education and training must allow funding to follow the learner and ensure a level playing field between different types of education and training.

4.43 Creating a level playing field is also not easy to achieve in practice. There are inevitably tensions between having a relatively simple tariff of unit funding levels and attempting to match what may be a complex range of inherent costs, and striking a balance is difficult. It will be essential for the Learning and Skills Council to regularly measure the costs of different types of provision and to use these in setting and regularly reviewing the funding tariff. It will also be important to assess whether major planning and delivery mismatches might have been caused by unintentional funding distortions and correct these quickly. Generally, while it is important to maintain transparency and simplicity in the system this should not be at the expense of reflecting significant variations in cost.

4.44 The Task Force was attracted by the potential of Individual Learning Accounts to help stimulate individual interest in learning, encourage a recognition of the need to invest in skills, and provide a mechanism for ensuring in a very direct way that funding followed the learner. We were disappointed therefore at recent announcements that seem to weaken the scope for ILAs to achieve this full potential, and believe the government should take further steps to identify how practical application of the principle of funding following the learner might be strengthened.

Funding work-based training

4.45 There are special difficulties, which we have noted before, in establishing comparable treatment in the funding system for work based learning. Essentially the difficulties arise because on-the-job training is a source of transferable skills as well as off-the-job training, and the costs employers incur in on-the-job training in the UK are not generally offset by lower trainee wages as they have been in Germany. The minimum wage now controls such wage levels in the UK and, in these circumstances, it is unrealistic to ask employers to bear all of these costs of apprenticeship training other than the fee costs of the off-the-job element. In our view, such a policy will not generate the desired increase in the provision of high quality apprenticeship places by employers.

4.46 This proposal is consistent with the recommendation in our Second Report that post-16 funding should be based upon a common tariff system which ensures 'broadly comparable levels of funding for broadly comparable qualifications in the same sector, irrespective of route, type of qualification or mode of learning'. We see nothing in the design and delivery of apprenticeships which suggests a need to change that earlier view. Employers should of course bear the cost of wages for apprentices, from whom they receive increasing productive value over time, but the public funding contribution should recognise the true costs to employers of the on-the job training that takes place (supervisor or mentor time, materials, use of equipment, coaching sessions etc.) in addition to the formal off-the-job element.

Recommendation 22: The public funding of apprenticeships should recognise the true costs to employers of on-the-job training in addition to the off-the-job element.

4.47 While we strongly endorse the flexibility of local discretionary budgets and local project design, we believe this must not be bought at the price of a coherent national policy framework. It must always be clear how public money has been used in relation to skills and what outcomes it has bought. Government departments must work together to ensure that they and the Learning and Skills Council specify comparable targets and returns on skills projects receiving public funding from whatever source, including Single Regeneration Budget and European Funds, and that the prices paid for education and training through such budgets and funds should not distort or imbalance local planning and provision. Where such funding is allowed to be additional to Learning and Skills Council funds, then there should be clear expectations of additional outcomes or measurable added value.

Addressing sectoral and occupational skills shortages

4.48 No matter how well planned and managed a system we create, there will always be the potential for major industrial or structural change, or chronic industry failure, to lead to significant skills mismatches. The shortage of ICT specialist skills is one example of this where the nature of skills change was not correctly anticipated by the education and training system, and the appeal of the industry as a career choice for young people was poor. In the engineering sector, the industry recognises that one of the key causes of skills shortfalls at craft, associate professional and professional levels is the relatively poor image of the industry, both as a career path because of uncertainty about the security of jobs in manufacturing and, in the case of graduate recruits, in terms of the relative pay and conditions available elsewhere.

4.49 We have examined the position on skills shortages and gaps in 9 industries through separate consultations and reports (see Annex D) and have learned that the nature of skills problems, their causes and the appropriate response across industries and occupations are all highly idiosyncratic. The problems can include poor industry or occupational image, geographical mismatches between demand and supply, an ageing workforce, perceptions of poor pay and conditions, amongst others, and the response must be designed to meet the particular circumstances of the problem and the industry. In our view, it is simply not possible to offer generalised solutions.

4.50 Overall, we concluded that individual industry skills shortages were generally best addressed by effective analysis of the problem and its underlying causes through the industry's National Training Organisation (preferably involving both employers and trade unions), and a joint action plan developed in conjunction with the Learning and Skills Council and relevant Regional Development Agencies. Individual industry responses may vary significantly, from an industry programme to reverse negative perceptions of employment opportunity and security in the engineering sector, to whole industry voluntary levy agreements such as those being agreed within the media and print industries. What in our view is essential is that each industry itself takes proactive responsibility for establishing a skills foresight programme that proactively anticipates potential skills challenges and develops effective responses to meet them, rather than wait until shortages and gaps are already reducing competitiveness.

Recommendation 23: Each National Training Organisation should put in place a permanent skills foresight programme to scan for and anticipate potential skills challenges, and engage its employers and relevant trade unions in responding to these through effective sector workforce development plans.

Information and communications technology specialist skills

4.51 ICT specialists are one of the fastest growing, and most economically critical, occupational areas in the UK, not just amongst businesses in the ICT sector, but across firms in all sectors which are seeking to transform their organisations to capture the benefits of e-business. It is also an area, as we described in Chapter 2, in which it is proving surprisingly difficult to attract new recruits, particularly women, into employment.

4.52 We made a recommendation in Chapter 3 on the need for the rationalisation of the ICT occupational and qualifications frameworks, and the proposal for a permanent skills foresight programme is as relevant for the ICT industry as any other. There is however a real and urgent need for the industry to do more, because the skills shortages in ICT specialist occupations has the potential to seriously undermine UK competitiveness across many sectors of industry.

4.53 In our sub-group's report, *Skills for the Information Age*, we called for an integrated programme of work by the industry, supported by government and the education and training system, comprising the following key elements:

- Creation of a 'toolkit', based on existing best practice, showing companies how to plan ahead to meet skill needs, how to recruit from non-traditional groups, and how to devise attractive employment packages;
- Establish a nationwide, high profile and sustained campaign to improve the image of ICT jobs, including targeted promotion and awareness raising activities, co-ordinated and accessible careers information, student and teacher workshops and television promotion;
- Co-ordinate better links between the ICT industry and the education system, offering teacher placements, work experience for students and greater ICT employers in the graduate apprenticeship scheme.

4.54 In our view, the potential impact of the current shortages in ICT skills means doing nothing is no longer an option.

Recommendation 24: The ICT industries, with the support of government and the education and training system, should establish an urgent campaign to create a more positive image of career prospects in the ICT industry, and work closely with employers, careers services and education and training providers, to substantially increase recruits into ICT specialist employment.

The case for a stronger statutory framework

4.55 All members of the Task Force are in agreement on, and fully endorse, the 24 Recommendations contained in this Report. However, some members remain committed to the view that, despite a range of Government initiatives over the years, the voluntary system has consistently failed to deliver sufficient, effective training activity to create, in the UK, the necessary skilled workforce to match those of our competitors. They noted that the key 2000 national education and training targets have not been achieved.

4.56 Therefore, they believe it is essential that a statutory framework is created that, through a system of tax incentives and, where necessary, tax penalties, ensures that the training issue is placed on every company's agenda. The facility should exist for such a framework to be established on a general or sector basis, so that sectors where training and development was satisfactory would be unaffected by these proposals, and sectors where there is consistent ineffective training performance could be targeted. These members believe that previous voluntary initiatives have demonstrated the challenge of limited resources of agencies such as TECs compared to the huge number of companies, particularly small and medium sized firms, that need to be reached. Any new voluntary proposals will face the same resources problem and therefore only have limited impact.

4.57 They emphasised that the UK does not have unlimited time to bring about improvements and therefore measures to ensure maximum impact are required immediately. The human cost of training failure is substantial. Large numbers of people at work continue to be denied opportunities with their futures blighted as a consequence. It was argued that these problems can only be remedied within a new statutory framework.

4.58 However, other members were convinced that the mix of practical measures, reinforced by incentives, set out in this report, could deliver the necessary change and progress, and that a further statutory requirement would not be appropriate. UK training performance, these members believed, had made striking progress over the last decade and now compares favourably with that of our international competitors. Numbers of employees receiving training, investment by employers and overall qualification levels have all increased significantly.

4.59 Employers, they argued, have risen to the challenge of heightened competition and the emerging knowledge economy. National initiatives, in particular, Investors in People, have gained considerable market share. All of this without a statutory requirement for training. The key challenge now is to ensure that adults with few or outdated skills are improving their employability. This requires more take-up of learning opportunities and a greater range of small and medium sized employers involved in the national training system.

4.60 These Task Force members consider that the targeted challenges identified in this Report are not suitable for statutory solutions which would be likely to produce compliance rather than real commitment, and act as a diversion from addressing real needs. Such challenges are far better met by the targeted market based recommendations made in this Report, which are concerned with changing culture and with generating real enthusiasm for learning.

Conclusion

4.61 In this chapter we have set out a coherent approach to the continuous management of the education and training market which aims to ensure that the interaction of the decisions of all the players in the market results in a closer match between the skills of the labour force and those required in employment. It is not based on directive planning and the setting of quotas, but attempts to work with the grain of the market while building in checks and balances through indicative planning and management information systems to ensure that the supply side does not have an undue influence over the pattern of participation.

4.62 This is the first time to our knowledge that such an approach has been worked out as a whole rather than being developed piecemeal. We recommend it as a foundation for the work of the new Learning and Skills Council and as indicating what the government should expect from the Council in its management of the system and in its planning.

CHAPTER 5

THE WAY FORWARD: PRIORITIES, TARGETS, ROLES AND RESPONSIBILITIES

Introduction

5.1 Our proposals for a national skills agenda must not disappear into the ether as so much good intention. They must be converted into a clear national strategy for practical implementation.

5.2 In this chapter we set out three key elements of that strategy:

- what parts of our agenda should be afforded greatest priority given inevitable budget constraints;
- what targets and measures of performance would most effectively guide the practical implementation of the strategy and enable us to monitor progress and judge its success; and
- the roles and responsibilities of the different agencies involved in taking work forward.

5.3 It is important to avoid too simplistic an approach to the issue of priorities. Many of our proposals are inter-related, and thus selecting priorities as if from a simple menu of choices runs the danger of ignoring the impact on other parts of the agenda and other parts of the education and training system. For example, choosing not to improve the apprenticeship system doesn't just have consequences for the numbers of young people attaining Level 3 qualifications. It also diminishes the motivation of many young people to do well at school and thus affects the value obtained from school policy.

5.4 Further, it is important to distinguish between time limited development or set up costs, and the long term additional costs entailed in, for example, expanding a particular type of provision. Costs of the former type entail choices about what to do first. Simply changing the phasing of implementation may not help to accommodate recurrent costs.

5.5 There must be a balance struck between the need for hard measures of performance and the danger of an over proliferation of targets. We are all too well aware of the distortions of behaviour that poorly designed, or too many, targets can produce. Targets need to be developed with considerable care and in concert with the organisations and people who will be responsible for achieving them. The suggestions we make here are intended as a first step in the process and we recognise that there will be modification and refinements as a result of that process.

5.6 Finally, no one can fail to be perplexed by the number of different agencies involved in education and training, particularly at the post-16 stage. While we attempt to assign clear roles in taking forward our strategy to different bodies, we do not claim that this will by itself lead to a more general and clearer delineation of roles and responsibilities. That is something which is beyond our remit. The current reform of post-16 institutions offers an important opportunity to clarify the system.

Priorities

5.7 From the research evidence in Chapter 2, and the recommendations in Chapters 3 and 4, it is not difficult to identify the top three priorities for implementation by government, employers and providers.

Priority: Low skilled adults

5.8 Firstly must be to address the chronic UK problem of low skilled adults. With adult literacy and numeracy levels some of the worst in the developed world, and almost one third of the workforce without even a basic 16 year old school leaving qualification, this poses a major barrier to raising the skill levels of the UK workforce. Urgent attention must be given to reducing the levels of illiteracy and innumeracy amongst adults, and we hope that the forthcoming Comprehensive Spending Review will release substantial funds for a full scale national programme to raise basic skills levels.

5.9 However, improving literacy and numeracy levels, whilst necessary, will not in our view be sufficient. We must also raise the skill levels of that large group without qualifications at Level 2, and this will require the combination of our proposed entitlement to a first Level 2 qualification for low skilled adults, income contingent loans for support costs, and a national programme to promote the benefits of learning to this group.

Priority: A high quality foundation learning system

5.10 As we have commented earlier in this report, the lack of a high quality vocational education and training system, as part of a coherent foundation learning system, has held back participation and attainment for many years. Reports from a number of groups similar to the Task Force have called for action in this area since 1878. In our view, this opportunity must not be missed again. Action is required in two areas. Firstly, the review of vocational qualifications and the transformation of the apprenticeship system based on the recommendations in our Second Report must be completed without compromise. Costs here are not great, but the changes are essential to create the high quality system the UK needs.

5.11 Equally important is the need to raise aspirations and opportunity amongst young people to achieve a Level 3 skills. With the likelihood that two thirds of jobs will expect Level 3 qualifications by 2010, such an expectation must become the norm. We welcome the government's announcement of a Level 3 entitlement for young people up to the age of 19, but international comparisons in Chapter 2 reveal that countries like France and Germany still significantly exceed UK skill levels because of the high participation rates of 19-24 year olds in Level 3 learning. Our second priority is thus for a public funding entitlement for all young people up to 24 to achieve their first Level 3 qualification.

Priority: Support for small employers

5.12 Support for small employers is essential if we are to succeed in raising adult skills levels and embedding an effective vocational education and training system. Research evidence confirms that smaller firms provide the least training to their workers, but also that they have the lowest levels of, or no, internal personnel and training support to help implement effective approaches to training. With a third of the workforce employed in firms with fewer than 50 employees, helping to raise aspiration and capability in such employers will be key to increased adult participation in learning.

5.13 We propose three key areas of action. The Learning and Skills Council should work with the Ufi to create employer learning networks around learning centres in local or sectoral clusters. The Small Business Service should prioritise programmes to introduce modern flexible working practices to small businesses because evidence shows that this improves both competitiveness and employer investment in learning. And the government should incentivise training and development best practice in employers with less than 50 employees through either a tax credit against, or a reduction in, the small business rate of corporation tax for the achievement of Investors in People.

A caveat

5.14 These priorities are not ordered - indeed, to order them would be to misunderstand them. These are the three areas of work most essential to the success of the National Skills Agenda, and each are equally important because they are closely inter-related. Without raising the skill base of our lowest skilled adults, we risk high social costs and continuing skills gaps across employers and sectors, reducing productivity and competitiveness. Without a strong vocational system leading to a much greater supply of intermediate, and particularly associate professional skills, we will face growing skills shortages in precisely those areas in most demand, stifling growth and fuelling inflation. And without engaging small and medium enterprises, we will fail on both counts because it is those employers, accounting for a third of the workforce, which have the least training capability and support, and are generally the source of our greatest weakness. Public funds are always finite, and we understand if government cannot fund all our proposals immediately - funding one before the other may be necessary, funding one at the expense of another would be a grave mistake.

Skills targets

5.15 If practical progress is to be made in implementing the strategy we have outlined in this report, then more precise measures of success will be needed. A regular report on progress against specific measures should form part of the regular skills audit to be undertaken by the Learning and Skills Council.

5.16 We advocate two sorts of measures. In this section, we propose a set of three targets for the primary improvements in skill supply we hope to achieve through the National Skills Agenda. We follow this with an outline of performance measures by which we might judge the success of the Learning and Skills Council and other agencies in managing the education and training market over time.

5.17 We recognise and support the government's current National Learning Targets for 2002, but what we have in mind here are longer term targets for major change in the UK skills base, relating particularly to the first two priority areas identified above. We believe that, as a nation, we face a major strategic challenge in relation to basic and intermediate skills and that our ambitions must be for substantive improvements over the next decade. We call on government, employers, trade unions and the education and training system to commit to an ambitious programme of work to achieve the following targets:

- 1. By 2010, to reduce the proportion of adults with low levels of literacy and numeracy from just over 20% to 10%¹**
- 2. By 2010, to increase the proportion of 25 year olds with a Level 3 qualification from 41% to 70%**
- 3. By 2010, to increase the proportion of the adult workforce with a Level 2 qualification from 68% to 80%**

5.18 We recognised in our discussions that these targets must be used in pursuit of our National Skills Agenda goal of "maintain[ing] a sound match between skills need and skills supply", and that therefore, particularly with Targets 2 and 3, the qualifications must generally be ones that are relevant and responsive to emerging employment needs. Target 1 is essentially a restatement of the target proposed in the Moser Report, which we have endorsed elsewhere. Meeting all of these targets will require the Department for Education and Employment and the Learning and Skills Council to ensure that there are annual reviews of our progress towards these targets, and that local targets and action plans are set appropriately to ensure that progress is both made and monitored.

Management performance measures

5.19 The ultimate objective of our strategy for managing the education and training market is to ensure that provision is responsive to demand and the labour market, and thus to minimise skill shortages and skills gaps in the future. Clearly it is difficult to devise direct measures of progress against this objective. Skills shortages and skills gaps do not lend themselves to precise measurement and their extent is affected by many variables other than those which are directly under the control of agencies such as the Learning and Skills Council. Nevertheless some measures, even if they are indirect, are necessary to enable us to judge performance over time.

5.20 We suggest the issue of measuring performance is addressed in two ways. First, the annual skills assessment which will be carried out by the new Learning and Skills Council should be the main vehicle for assessing progress in reducing the extent of skill shortages and skills gaps. This sort of comprehensive assessment will allow a more rounded judgement to be made about the extent of skill shortages and gaps. It should not be based on very crude measures, and will need to allow for assessment of the factors leading to gaps and shortages, including, for example, the effect of the economic cycle.

¹To be measured against the International Adult Literacy Survey lowest skill category, to provide a measure for ongoing monitoring against a recognised international benchmark.

5.21 The second approach is to devise some intermediate measure of the performance of the Learning and Skills Council and other agencies in managing the market. These should focus on the extent to which provision of education and training is meeting customer need, the congruence between education and training and trends in the labour market and the extent to which students and potential students are able to exercise informed choice.

5.22 The Learning and Skills Council should develop numeric measures relating to the following three indicators:

Customer need: all publicly funded education and training providers should record student applications by course category and the Learning and Skills Council should collate and publish statistics, comparable to those available for higher education, on the match between learner applications and course provision should be collated and published by the Council.

Labour market congruence: measures should be taken here at two levels. Nationally, the Learning and Skills Council should identify and publish, as part of its annual assessment, trends in enrolments by occupation compared with the trend in recruitment to different occupations. At the institutional level, the Council should collate annual data relating leaver destination after 6-12 months (including nature of employment or further learning) to learning programme studied.

Informed choice: the Council should undertake a regular survey of individuals to assess the perceived relevance, accessibility and reliability of both labour market and learning information, and the quality of guidance services for both young people and adults.

Roles and responsibilities

5.23 We stated in Chapter 1 that, to succeed, the National Skills Agenda must be a shared agenda. There must be clear leadership at the national level, and that is of course a role for government, but employers, education and training providers, and individuals must also accept a shared responsibility for the skills challenge, and each strive to make an effective contribution. In this section, we concentrate mostly on the role of national, regional and local agencies - the Department for Education and Employment, the Learning and Skills Council, National Training Organisations, the Qualifications and Curriculum Authority, and the Regional Development Agencies amongst others. Effectively engaging with customers and providers of education and training must be part of the work of those agencies.

5.24 However, before turning to the agencies, it is important to say something about the overarching roles and responsibilities of the four main stakeholders in learning. We spoke of the responsibilities of individuals, employers, providers and the government in the opening section of our first report - it seems appropriate to return to them in the closing section of our final report. Education and training brings benefits to employers, individuals and the state. Employers gain the more skilled workforce essential for competitiveness and growth; individuals gain the capability required to maintain their continued employability in a dynamic labour market; government gains from increased social cohesion, improved revenue flows and lower social welfare costs.

Stakeholder responsibilities

5.25 Those who benefit from a system must share in the responsibility for ensuring its success. We believe the responsibilities for each of the primary stakeholders in the education and training system are as follows:

Individuals should take responsibility for reviewing their skills and initiating action to keep their employability skills up to date. They should co-operate fully with their employer in job-specific training designed to meet business objectives, and those who can afford to should make a reasonable contribution to the time and costs of transferable learning to improve their continuing employability.

Employers should plan, deliver and evaluate the effectiveness of learning for all their employees to meet their business objectives. They should bear the full costs of job-specific learning, and contribute through encouragement, support and investment to developing the transferable skills and continuing employability of their staff commensurate with the benefits which accrue to them by so doing. They should co-operate through sector training bodies to assess their future skills needs, and inform and support providers in meeting those needs.

Government should assess the learning needed to achieve national economic and social objectives, and take lead responsibility for ensuring that the education and training system is equipped to meet those needs. It should ensure that all citizens have equitable opportunities to obtain a minimum foundation of learning for their future employability, and contribute to the costs of continuing learning, through fees grants or loans, according to economic priority and individual need.

Education and training providers should assess the current and likely future skills needs of their local communities and the wider labour market, and ensure that the learning provision they offer is responsive to those needs and flexible in terms of time, mode, pace and place of learning to maximise individual access.

5.26 Trade unions too can play a key role in ensuring the success of the National Skills Agenda and, although they are not direct primary stakeholders, they do have a key role to play, and responsibilities which would accrue to that role. Trade unions should place skills amongst their top priorities in bargaining, and work productively with employers to develop coherent strategies for workforce development within each workplace. By encouraging and supporting their members to re-engage with learning, and recognise their shared responsibility for their own continuing employability, trade unions can use their unique position to great effect.

Primary agency responsibilities

5.27 The government, and in particular the **Department for Education and Employment**, must take responsibility for overall education and training policy, including securing the necessary public funding. Whilst delegating operational responsibility to the Learning and Skills Council for post-16 education and training below higher education, the Department should retain a significant capability in national policy and strategy. The Department's policy responsibility should be underlined by an annual public statement from DfEE Ministers setting out their view on progress to date, and government's priorities for the coming period. This might best be done in response to the annual skills assessment to be prepared by the Learning and Skills Council and form part of the annual guidance to the Council.

5.28 The **Learning and Skills Council** would have the lead role for the implementation of the National Skills Agenda, and must therefore have a strong place for private sector employers in its membership. The Council's responsibilities have been defined by the government in its consultation documents and the Learning and Skills Bill. It will take the lead role in identifying and collating labour market information; defining the annual priorities and forward strategy for continuous improvement of the system; setting annual performance targets and measures, designing and implementing its funding tariff, ensuring the availability of adult information, advice and guidance; ensuring participation and attainment is maximised, and promoting lifelong learning and workforce development at the national and local levels.

5.29 The **National Training Organisations** have important roles to play in the post-16 education and training system, and many of our recommendations have been concerned to clarify those roles and ensure they have adequate resources for their work. NTOs' primary roles should include regular labour market assessments of their sector including skill benchmarking and skills foresight programmes; development and implementation of sector workforce development plans, including the promotion of Investors in People; setting and achieving targets for increases in learning participation and skills attainment within their sector; maintenance and regular updating of National Occupational Standards and associated vocational qualifications; development and promotion of apprenticeships and foundation degrees within their sector; active promotion of the benefits of learning to their employers; and the identification and promotion of best practice.

5.30 The **Qualifications and Curriculum Authority and the Awarding Bodies** have responsibility for ensuring that the proposed improvements to the vocational qualification system are fully implemented; that NVQs and RVQs do comply with national occupational standards that the benefits of related vocational qualifications to employers are reflected in lighter competence assessment for NVQs when the related vocational qualification has also been achieved; and that assessment systems maintain the highest standards of quality and consistency.

5.31 There is most scope for confusion in respect of the role of **Regional Development Agencies**. At present, Regional Development Agencies are remitted to develop skills strategies for their region, setting out priorities for the development of skills together with an action plan of how partners in the region will work together to achieve them. We believe that many skills issues and priorities do display a regional dimension, often through industrial clustering, and that this strategic role for Regional Development Agencies in identifying and analysing demand is therefore an important one. There is an urgent need to set out more clearly how the work of Regional Development Agencies will relate to the planning responsibilities of the local Learning and Skills Councils, whose primary role will lie in leveraging supply to meet identified demand in their sub-regions. It may be appropriate to focus the Regional Development Agencies work more tightly on regional level skills issues directly related to economic development and regeneration rather than to aim for a total comprehensive plan at the regional level.

Other agencies

5.32 Other agencies also have key roles to play and we wish to identify four here for special mention, although we recognise that the full range of organisations and institutions contributing in some way to post-16 education and training is far too extensive for this report.

- **Connexions** (the new Youth Support Service) will have a key role to play in ensuring that young people have access to information, advice, guidance and help in career and learning choices; however, it must ensure that its special focus on the cohort of significantly disadvantaged individuals does not reduce the overall level of guidance available to those young people with lower levels of need;
- **Local Authorities**, with their broad responsibility for the economic, social and environmental well-being of their local communities, must engage in the National Skills Agenda as true partners, ensuring that the plans of the Learning and Skills Council integrate effectively with local strategies for regeneration and tackling social exclusion, as many of the hardest to reach groups can often be accessed through such local actions;
- **Ufi**, and its network of **learndirect** learning centres, must play a key role in marketing and delivering learning, including basic skills, to the adult workforce; and working closely with the 'employer learning networks' to ensure that small firms and their employees can access relevant learning in the style and at the time, place and pace of their choosing;
- **Local Learning Partnerships** must provide the key vehicle for bringing providers in local communities together to avoid unhelpful aspects of competition, and collaborate effectively to ensure that the balance of provision in their communities becomes better matched to demand.

Conclusion

5.33 In this report, we have set out our proposals for the elements of a National Skills Agenda, and in this concluding Chapter our priorities and targets for action. We believe it provides a practical way forward for addressing our future skills needs. If it is to be successful, then it will depend on clear leadership and accountability from government and the Learning and Skills Council at the national level, plus a genuine commitment on the part of all those, down to the level of the individual school, learning provider and employer.

5.34 As a nation we have made much progress over recent years in expanding education and training opportunities, in increasing participation and in raising attainment. Together these constitute a good start in the right direction, they give us a sound foundation on which we can continue to build. Our proposals for a National Skills Agenda are designed to build on that undoubted progress and our future ambitions are high. By working together as a nation, and only by working together, we can make the proposals a reality.

Annex A

Skills Task Force terms of reference and work programme

Terms of reference

To assist the Secretary of State in developing a National Skills Agenda which will ensure Britain has the skills needed to sustain high levels of employment, compete in the global market place and provide opportunity for all. The Task Force will provide advice on:

- the nature, extent and geographical and industrial pattern of skill needs and shortages (together with associated recruitment difficulties) and how the UK can monitor these effectively on an ongoing basis;
- practical measures to ease skills and recruitment difficulties, and help raise the level of sustainable employment, both in the short and longer term;
- the likely changes in the longer-term skill needs of the economy, and the extent to which these needs will be met on the basis of existing trends; and
- how best to ensure that the education and training system responds effectively to the needs identified.

The analysis provided by the Task Force will cover general skill levels as well as specific occupational and sectoral issues. It will include factors affecting the longer term skill needs of the economy such as new forms of work organisation, changes in patterns of employment, new communications and information technology and increased international trade.

Work programme

The Task Force started its work in April 1998 and produced its first report in September of that year. That report set out a preliminary analysis of skill shortages and skills gaps and the proposed forward work programme. The second report, published in May 1999, covered the topics of vocational skills for young people, key skills and the dissemination and collection of skills and labour market information. In January 2000 the Task Force's third report was launched, dealing with the upskilling of adults and learning in the workplace.

Throughout its work the Task Force has consulted widely, holding 41 consultation events including regional events and events focused on particular sectors of industry and business. In addition the group has been greatly helped by a series of meetings with the main agencies involved in education and training, including the NTO National Council, TEC National Council, the Further Education Funding Council and the Qualifications and Curriculum Authority.

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Annex B

Members of the Skills Task Force

Name	Organisation	Position
Chris Humphries CBE (Chairman)	British Chambers of Commerce	Director General
Llew Aviss	Llew Aviss Associates	Managing Director
Rita Britton	Pollyanna (Barnsley) Limited	Director
Tony Dubbins	Graphical, Paper & Media Union	General Secretary
Eric Drewery	ABB Limited	Chief Executive
John Edmonds	GMB	General Secretary
Denise Hall	BT plc	Head of Government, Health and Education Services
Sir Ken Jackson	AEEU	General Secretary
Dr DeAnne Julius	Bank of England	Member, Monetary Policy Committee
Eddie MacIntyre CBE	Birmingham College of Food and Tourism	Principal
Ashwin Mistry OBE	Brett & Randall Insurance Brokers	Director
Terry Morgan	BaE Systems plc	HRD Director
John V Palmer	Steel Training Ltd	Chairman
Peter Rainbird CBE	Rainbird Group Ltd	Chairman/Chief Executive
Iain Roxburgh	Coventry City Council	Chief Executive & Town Clerk
Sharon Studer	3 COM Europe Ltd	Vice President
Julia Tinsley	Pitman Training Centre	Director
Adair Turner	Confederation of British Industry	Director General (formerly)
Prof Leslie Wagner	Leeds Metropolitan University	Vice Chancellor
Anne Weinstock CBE	Rathbone CI	Chief Executive (currently on secondment to DfEE)

Annex C

National Learning Targets for England for 2002

Targets for 11 year-olds

- 80% of 11 year-olds reaching the expected standard for their age in literacy, and
- 75% reaching the standard in numeracy

Targets for 16 year-olds

- 50% of 16 year-olds getting 5 higher grade GCSEs
- 95% getting at least 1 GCSE

Targets for young people

- 85% of 19 year-olds with a 'Level 2' qualification
- 60% of 21 year-olds with a 'Level 3' qualification

Targets for adults

- 50% of adults with a 'Level 3' qualification
- 28% with a 'Level 4' qualification
- to reduce non-learners by 7%

Targets for organisations

- 45% of medium sized or large organisations recognised as Investors in People
- 10,000 small organisations recognised as Investors in People

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Annex D

National Skills Task Force publications list

Main Reports

Towards a National Skills Agenda: First Report of the National Skills Task Force (September 1998, Ref: SKT1) presented some initial findings and proposals on existing skills shortages, underlying skills gaps in the labour force, and how to address longer term needs.

Delivering Skills for All: Second Report of the National Skills Task Force (May 1999, Ref: SKT5), focused on three fundamental issues raised in the first report, producing 53 specific recommendations in the areas of: skills for young people - building a system which promotes participation and progression; employability and key skills; and labour market and skills information - a new strategy for informing the market.

Delivering Skills for All: Second Report - Executive Summary (May 1999, Ref: SKT5ex)
A5-sized, 16 page summary of the main points from the second report.

Tackling the adult skills gap: upskilling adults and the role of workplace learning: Third Report of the National Skills Task Force (January 2000, Ref: SKT 26) set in train a fresh approach to reaching low-skilled, reluctant learners and to spreading the benefits of both formal and informal learning to smaller firms and their employees.

Skills for all: proposals for a National Skills Agenda: Final Report of the National Skills Task Force (June 2000, Ref: SKT 28) presents our vision of a national skills agenda, bringing together the key themes and recommendations from our preceding three reports.

Skills for all: Research Report from the National Skills Task Force (June 2000, Ref: SKT 29) sets out the evidence underpinning the recommendations made by the Skills Task Force. It examines trends in skill supply and demand and presents evidence on where the main mismatches between supply and demand occur. It concludes by identifying the six main skill priority areas where future investment in skills should be targeted.

Skills Task Force Research Papers

- SKT 6** Anticipating Future Skill Needs: Can it be done? Does it Need to be done?
- SKT 7** The Dynamics of Decision making in the Sphere of Skills' Formation
- SKT 8** Management Skills
- SKT 9** Intermediate Level Skills - How are they Changing?
- SKT 10** Jungle Trekking: Vocational Courses and Qualifications for Young People
- SKT 11** The Leisure Sector
- SKT 12** Engineering Skills Formation in Britain
- SKT 13** The Market Value of Generic Skills

- SKT 14** Employment Prospects and Skill Needs in the Banking, Finance and Insurance Sector
- SKT 15** New Technology Industries
- SKT 16** Funding Systems and their Impact on Skills
- SKT 17** Skills Requirements in the Creative Industries
- SKT 18** Skills Issues in Small and Medium Enterprises
- SKT 19** Spatial Skill Variations: Their extent and implications
- SKT 20** Employers' Attitude to Training
- SKT 21** Skills Issues in Other Business Services - Professional Services
- SKT 22** Science Skills Issues
- SKT 23** Empirical Evidence of Management Skills in the UK
- SKT 24** Monitoring and measuring Occupational Change: the Development of SOC2000
- SKT 27** The Returns to Academic, Vocational and Basic Skills in Britain

Information Technology, Communications and Electronics Skills Strategy Group Reports

- SKT 25** Skills for the Information Age: Final Report from the Information Technology, Communications and Electronics Skills Strategy Group.
- SKT 25E** Skills for the Information Age: Final Report From The Information Technology, Communications and Electronics Skills Strategy Group - Executive Summary

Other Reports

- SKT 3** Mind the Gap - Inc CD-ROM
- SKT 4** Mind the Gap

Copies of these reports are available free of charge (quoting the appropriate **SKT** reference) from:

Prolog
PO Box 5050
Sudbury
Suffolk
CO10 6YJ

Tel: **0845 60 222 60**
Fax: **0845 60 333 60**

These reports and others in the series are also available on the world wide web at:
www.dfee.gov.uk/skillsforce

Annex E

Definitions of attainment levels

The definitions of attainment levels listed here are those used by DfEE in, for example, estimating progress against the National Learning Targets. They are based on the qualifications data available from the Labour Force Survey. In places this report also uses some attainment level estimates based on slightly different definitions for the purposes of international comparisons. Where these alternative measures are used they are footnoted, and their definitions are included in our companion evidence report (Skills for all: Research report from the National Skills Task Force, Chapter 4, Annex 1).

Level 5 Higher degree;	NVQ level 5.	
Level 4 First degree; Diploma in higher education; RSA higher diploma; Teaching (including FE, secondary, primary and others).	Other degree; HNC,HND,BTEC etc higher; Other HE below degree;	NVQ level 4; Nursing etc;
Level 3 NVQ level 3; RSA advanced diploma; Scottish CSYS (67% of); Trade apprenticeship (50% of).	GNVQ advanced; OND,ONC,BTEC etc. national; SCE higher or equivalent (3+);	A level and equivalent (2+); City & Guilds advanced craft; AS level or equivalent (4+);
Level 2 NVQ level 2; RSA diploma; AS level or equivalent (2 or 3); BTEC, SCOTVEC first or general diploma; O level, GCSE or equivalent (5+ grades A-C).	GNVQ intermediate; City & Guilds craft; Trade apprenticeship (50% of);	A level and equivalent (1); Scottish CSYS (33% of); SCE higher or equivalent (1 or 2);
Below level 2 NVQ level 1; CSE below grade 1; City and Guilds other; AS level or equivalent (1);	GNVQ/GSVQ foundation; GCSE below grade C; SCOTVEC modules; BTEC, SCOTVEC first or general certificate.	Less than 5 GCSE grades A-C; RSA other; YT, YTP certificate;

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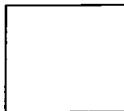


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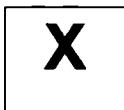


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